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THESIS

THE EXTENT OF CHINESE INFLUENCE IN LATIN AMERICA

by

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December 2018

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THE EXTENT OF CHINESE INFLUENCE IN LATIN AMERICA

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ABSTRACT

This thesis asks to what extent and why Chinese engagement has influenced the Latin American economic outlook and foreign policy changes in the twenty-first century and uses Chile and Mexico as case studies. The extent of Chinese engagement is established first because it is variable by country. Economic and foreign policy changes are then examined through the lens of Chinese engagement. This research found that economic and foreign policy changes were influenced by a mixture of domestic agency and growing Chinese hegemony, with Chinese engagement and influence being commensurate with the level of economic compatibility.

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LIST OF ACRONYMS AND ABBREVIATIONS

APEC	Asia-Pacific Economic Cooperation
CCP	Chinese Communist Party
CELAC	Community of Latin America and the Caribbean States
FTA	Free trade agreement
GDP	Gross domestic product
GNP	Gross national product
LATAM	Latin America
NDS	National Defense Strategy
NAFTA	North American Free Trade Agreement
OAS	Organization of American States
OBOR	One Belt One Road
OECD	Organization for Economic Co-operation and Development
PAN	National Action Party
PRC	People's Republic of China
PRI	Institutional Revolutionary Party
RCEP	Regional Comprehensive Economic Partnership
TPP	Trans-Pacific Partnership
UN	United Nations
WTO	World Trade Organization

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I. INTRODUCTION

A. MAJOR RESEARCH QUESTION

To what extent and why has Chinese engagement in twenty-first century Latin America influenced the Latin American economic outlook and foreign policy?

B. SIGNIFICANCE OF THE RESEARCH QUESTION

The 2018 *National Defense Strategy* asserts that “the central challenge to U.S. prosperity and security is the reemergence of long-term, strategic competition by...revisionist powers.”¹ The revisionist powers, namely China and Russia, “want to shape a world consistent with their authoritarian model—gaining veto authority over other nations’ economic, diplomatic, and security decisions.”² With respect to China, the *National Defense Strategy* says that it “is leveraging military modernization, influence operations, and predatory economics to coerce neighboring countries to reorder the Indo-Pacific region to their advantage...that seeks Indo-Pacific regional hegemony in the near-term and displacement of the United States to achieve global preeminence in the future.”³ Latin America is beyond the traditional Indo-Pacific region, but has nonetheless felt the impact of China’s rise. In fact, Chinese engagement in LATAM increased substantially in the twenty-first century. With respect to the *National Defense Strategy*, the research question is significant because it can help identify if China’s actions to alter the international order spans the entirety of the Pacific and includes revising LATAM in accordance with its authoritarian model.

The research project asks *to what extent and why* Chinese engagement influenced the economic outlook and foreign policy of LATAM. In doing so, this research project fills a void in the academic literature which largely analyzes one particular aspect of the China-LATAM relationship, and does not adequately address the degree of Chinese influence.

¹ Jim Mattis, *National Defense Strategy* (Arlington, VA: Department of Defense, 2018), 2, <https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>.

² Mattis.

³ Mattis.

The answer to the research project can help recognize “predatory economics” in LATAM and help identify if the *National Defense Strategy*’s stated Chinese goals of “Indo-Pacific regional hegemony” and “displacement of the United States” should be extended to the Western Hemisphere.⁴ Furthermore, the research question challenges the inherent assumption in the *National Defense Strategy* that foreign actors can influence behavior.

The *NDS* aside, the research question has significance because it addresses the agency versus hegemony debate and how the mechanisms of hegemony are manifested. This is the debate over the extent of influence a hegemonic power actually has over a smaller power. The research project is unlikely to ultimately resolve this debate, because there are only two case studies limited to LATAM. However, it will contribute to the academic literature and provide an additional piece to the puzzle. The second part of the research question—why China has influence—has implications for the methods and circumstances needed for a hegemon to gain influence.

The findings from the research project have foreign policy implications for the U.S., in both LATAM and China. For the U.S.-LATAM relationship, a realignment of U.S. policy objectives in the Western Hemisphere may be needed after determining the extent of Chinese influence, especially after the 2018 *NDS*. For the U.S.-China relationship, the question sheds light on the complexities of dynamic hegemonic relationships and the extent of a rising powers influence in another’s perceived historical sphere of influence. Lastly, the answer to the research project helps identify the extent of the shifts in the balance of power in a world arguably looking less unipolar. This is especially relevant in our current time period because—according to the *NDS*—the U.S. is “emerging from a period of strategic atrophy...facing increased global disorder...(where) inter-state competition, not terrorism, is now the primary concern in the U.S. national security.”⁵

⁴ Mattis.

⁵ Mattis, 1.

C. RESEARCH DESIGN

Answering the research question requires comparing the economic data and political outlook at the turn of the twenty-first century with the current economic data and political outlook, and then attributing the changes to either Chinese hegemony or LATAM agency. Analyzing the economic and political changes in the past twenty years and understanding why they occurred is essential. A comparative case study using Chile and Mexico is an ideal method to answer the research question because they are at opposite ends of the spectrum of economic compatibility with China.⁶ Chile has a complimentary economy based on exporting commodities while Mexico has been negatively impacted by manufacturing competition.⁷ Ideally, the differences in economic compatibility help to provide unique insights into the research question. Additionally, these countries are well-developed, so data and sources should be abundant. However, it is possible that different conclusions could be drawn if case studies were selected using a mechanism other than economic compatibility, such as country size or political ideology. These countries could be more susceptible to Chinese engagement and influence which could provide different results. However, the economic impact from China was prioritized while choosing case studies, under the assumption that the economy was the most important factor to help answer to what extent and why China has influence in LATAM.

Both primary and secondary sources are used. Domestic media provides unique insight and background in ways that government statements do not. Foreign newspapers are online and provide multiple points of view. Additionally, the tone, content, and the media reaction to heads of state visits provide additional insight into Chinese engagement. The synthesis of government statements and domestic media should provide the best summary of Chinese engagement and influence. Secondary sources, such as books,

⁶ Kevin Gallagher and Roberto Porzecanski, *The Dragon in the Room: China and the Future of Latin American Industrialization* (Stanford, CA: Stanford University Press, 2010), 7.

⁷ Francisco Gonzalez, "Latin America in the Economic Equation—Winners and Losers: What Can Losers Do?" in *China's Expansion into the Western Hemisphere*, eds. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings Institution Press, 2008), 151.

journals, and articles about Chinese foreign policy and LATAM politics and economics supplement the primary sources.

D. POTENTIAL EXPLANATIONS AND HYPOTHESES

1. Hypothesis #1: The Case for Chinese hegemony

The first hypothesis suggests that Chinese engagement with LATAM influenced its economic outlook or foreign policy. In other words, Chinese engagement yielded influence in the LATAM economic outlook or foreign policy trajectories. This influence could be implemented through several mechanisms, such as economic engagement, political incentives, foreign aid, loans, soft power, or coercion. This hypothesis is true if there is evidence that economic or foreign policy trajectories changed as a direct result of Chinese engagement.

An area of concern regarding this hypothesis is that neither country would admit that they are implementing policy changes due to foreign influence. However, this hypothesis could still be proved after examining politician's views on China, trade deals, economic progress, and foreign policy changes. Additionally, the domestic perception of China should provide insight into this hypothesis.

2. Hypothesis #2: The Case for LATAM agency

The second hypothesis suggests that LATAM decision-making is the driver of change in the economic outlook and foreign policy. This hypothesis accounts for the possibility that Chinese engagement in LATAM has not yielded influence in the economy or foreign policy. There are a variety of reasons why agency could prevail over hegemony, including leadership, national identity, culture, bureaucracy, or domestic politics.

E. STRUCTURE OF THE RESEARCH PROJECT

The dependent variables are the extent of the economic and foreign policy changes in LATAM and why Chinese engagement has influence. The independent variable is the degree of Chinese engagement and is a variable in itself. Chinese engagement in LATAM is the cause, and the extent of the changes and why they are manifested are the effects.

Since the independent variable is a variable in itself, the first part of the case studies are used to establish the level of Chinese engagement.

This is completed by addressing how exactly Chinese engagement has manifested itself in LATAM. The research indicated that Chinese engagement is manifested first through economic engagement through grants, loans, trade, assistance and investment.⁸ The next step of engagement is through political means, often manifested via visits to the region.⁹ Lastly, military engagement follows political engagement.¹⁰ Therefore, to establish the independent variable, the case studies begin by overviewing the level of Chinese economic, political, military, business, and social engagement.

“Cause” → “Effect”

“Independent variable” → “Dependent variable”

“Chinese engagement” → “Extent of economic and foreign policy changes”

“Chinese engagement” → “Why it has influence”

The second part in answering the research question is asking *to what extent and why* the Chinese engagement in LATAM impacted the economic outlook and foreign policy and involves establishing the link between the dependent variables and the independent variable. In order to do this, an overview of exactly how the LATAM economy and political trajectory changed since increased Chinese engagement is examined. Looking at economic trade data and overlaying this with the increased Chinese engagement helps to answer the degree to which engagement drives economic changes. Additionally, tracking changes in the heads of state visits should help answer if engagement breeds influence. The two hypothesis, agency and hegemony, are the explanations linking the independent and dependent variables.

⁸ USAID, *Report to Congress on Assistance by the People's Republic of China to Government and Entities in Latin America and Africa* (Washington, DC: USAID, 2009), https://www.usaid.gov/sites/default/files/cr_china_7071f3.pdf.

⁹ Daniel Morgan. “Expanding the Rebalance: Confronting China in Latin America,” *Parameters* 45, no. 3 (Autumn 2015): 110.

¹⁰ Morgan, 114.

F. LITERATURE REVIEW

China-LATAM relations have expanded substantially since the turn of the century.¹¹ A wide-range of literature is available regarding Chinese engagement in LATAM economically, politically, and even militarily. Most scholars fall into one of two camps regarding their paradigm of China-LATAM relations. The first camp views Chinese involvement in LATAM through the lens of power politics and encroachment on the U.S. historical sphere of influence. The second camp views Chinese involvement in LATAM in a more positive light, emphasizing new economic partnerships, mutual benefits, and increased opportunities.¹² However, there is a third point of view that is “balanced and judicious” and based off an understanding of the arguments made by both camps.¹³ The literature on the China-LATAM relationship has increased in the twenty-first century and is commensurate with the increased Chinese engagement in the Western Hemisphere.¹⁴

Chinese interests in LATAM are broken down into economic and geopolitical interests. These interest areas are intertwined, which complicates the ability to analyze the issues separately. However, economic factors, such as new markets and finding more sources for raw materials top the list.¹⁵ For example, Chile provides China with dual opportunities for importing raw materials and a new market to sell its goods.¹⁶ There are also geopolitical interests, such as finding increased support for the One-China policy.¹⁷

¹¹ Ryan Ellis, *China in Latin America: The Whats & Wherefores* (Boulder, CO: Lynne Rienner Publishers, 2009), 1; Jiang Shixue, “The Chinese Foreign Policy Perspective,” in *China’s Expansion into the Western Hemisphere*, eds. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings Institution Press, 2008), 27.

¹² Lei Yu, “China’s Strategic Partnership with Latin America: A Fulcrum in China’s Rise,” *International Affairs* 91, no. 5 (September 2015): 2; Ellis, *China in Latin America*, 1.

¹³ Adrian Hearn and Jose Leon-Manriquez, *China Engages Latin America: Tracing the Trajectory* (Boulder, CO: Lynne Rienner), ix.

¹⁴ Ellis, *China in Latin America*, 1.

¹⁵ Ellis, 166.

¹⁶ Ellis, 1.

¹⁷ Sun Hongbo, “China’s Benefits in Latin America: American Scholars’ Judgment and Anxiety,” in *China Latin America Relations: Review and Analysis*, ed. He Shuangrong (Beijing, China: Social Science Academic Press, 2012), 47.

This is important for China because there are several—mainly Caribbean countries—that recognize the Republic of China (Taiwan) as the “legitimate government of China.”¹⁸

The debate of economic versus geopolitical factors as the primary driver of Chinese engagement in LATAM is unresolved. However, the official position of Beijing is that the economic factors, not the geopolitical factors, are the driving motivation behind increased Chinese engagement.¹⁹ This official view compliments nicely with the peaceful rise narrative.²⁰ When viewing Chinese engagement in LATAM through this lens, China is not a threat but instead represents an expansion of opportunity.²¹

Some scholars assert that Chinese interests are driven primarily by geopolitical rational.²² Since the U.S. is the historical hegemon, geopolitical changes are best analyzed in terms of the U.S.-China-LATAM relationship.²³ For this reason, it is difficult to examine the China-LATAM relationship in a vacuum. Historically, LATAM is a low priority for Washington, and the perception is that Washington does not care about the LATAM perspective on Chinese engagement.²⁴ Some scholars argue that U.S. leadership is “excessively wary” about Chinese intentions in LATAM.²⁵ A military alliance between China and LATAM is considered a worst-case scenario for U.S. interests but is unlikely.²⁶ Scholars do not believe that a military alliance is in either countries’ interest.²⁷ Geopolitical influence as the primary motivation for China is supported by the argument that

¹⁸ Ellis, *China in Latin America*, 199.

¹⁹ Shixue, “The Chinese Foreign Policy Perspective,” 27.

²⁰ Shixue, 32.

²¹ Shixue, 40.

²² Xiang Lanxin. “An Alternative Chinese View,” in *China’s Expansion into the Western Hemisphere*, eds. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings Institution Press, 2008), 45.

²³ Gonzalez, “Latin America in the Economic Equation—Winners and Losers,” 150.

²⁴ Gonzalez, 78.

²⁵ Juan Tokatlian. “A View from Latin America,” in *China’s Expansion into the Western Hemisphere*, eds. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings Institution Press, 2008), 78.

²⁶ Tokatlian.

²⁷ Barbara Stallings. “The US-China, Latin America Triangle: Implications for the Future,” in *China’s Expansion into the Western Hemisphere*, eds. Riordan Roett and Guadalupe Paz (Washington, DC: Brookings Institution Press, 2008), 255.

geopolitical interests and economic interests are closely linked.²⁸ This rationale also emphasizes the interest about Taiwan and reads between the lines of official Chinese literature.²⁹ They can also point out that loans and foreign aid are difficult to estimate and no official numbers are released.³⁰

The geopolitical argument as the primer driver of Chinese engagement implies that China and the U.S. are competing for influence in LATAM. Presumably, China is trying to legitimize its system of government and create its own sphere of influence.³¹ Ultimately, Beijing's increased engagement in the political, economic, and military sectors are a means of offering LATAM an alternative choice to U.S. leadership.³² With this in mind, some say that increased Chinese presence within LATAM could have implications for the U.S. rebalance to the Pacific.³³ The Chinese presence could also result in military equipment alternatives, which would clash with U.S. interests.³⁴ Chinese soft power has increased in LATAM due to growing economic ties which has occasionally brought leverage.³⁵ Lastly, increased economic engagement typically preceded increased political engagement which is quantifiable by government visits and exchanges.³⁶

The question of whether geopolitical or economic reasons are the primary drivers of Chinese engagement in LATAM is different to answer. Is the natural extension of increased economic engagement an increase in political ties? Or were political ties the desired end state? U.S. hawkish observers worry about Chinese geopolitical influence and

²⁸ Stallings, "The US-China, Latin America Triangle," 45.

²⁹ Stallings.

³⁰ USAID, *Report to Congress*.

³¹ Morgan, "Expanding the Rebalance: Confronting China in Latin America," 114; Yu, "China's Strategic Partnership with Latin America," 2.

³² Morgan, 114.

³³ Morgan.

³⁴ Morgan, 102.

³⁵ Katherine Kolesi, "Backgrounder: China in Latin America," *US-China Economic and Security Review Commission* (May 2011): 7.

³⁶ Kolesi, 14.

question the underlying motivations.³⁷ This point of view implies that the U.S.-China relationship is a zero-sum game where influence comes at the expense of the other.

A survey of the literature shows there are several factors for increased Chinese economic engagement in LATAM. There is a need to increase access to raw materials and find markets to export goods.³⁸ The trade relationship has expanded substantially since the turn of the century.³⁹ In addition, economic engagement can potentially create soft power which should theoretically create more “leverage.”⁴⁰ Chinese soft power in LATAM is still behind the U.S. because there are significant cultural barriers.⁴¹ However, China’s image is improving.⁴² Lastly, LATAM and China have a similar colonial experience, and China has an opportunity to frame its engagement in a non-threatening manner.⁴³

There are areas of consensus and debate regarding the Chinese economic influence in LATAM.⁴⁴ For example, scholars view the economic ramifications for LATAM due to China as “both a warning sign and an opportunity.”⁴⁵ However, the same study finds that there are significant challenges for the long-term health of the LATAM economy.⁴⁶ This is because Chinese exports are competitive and LATAM “exports to China are heavily concentrated in a handful of countries and sectors.”⁴⁷ In addition, China positioned itself well for long-term economic success.⁴⁸ As previously mentioned, economic and geopolitical considerations are hard to analyze separately, and the geopolitical implications

³⁷ Ellis, *China in Latin America*, 3.

³⁸ Ellis, 9.

³⁹ Kolesi, “Backgrounder: China in Latin America,” 4.

⁴⁰ Kolesi, 14.

⁴¹ Miguel Carreras, “Public Attitudes Toward an Emerging China in Latin America,” *Issues & Studies: A Social Science Quarterly on China, Taiwan, and East Asian Affairs* 52, no. 1 (March 2017): 18.

⁴² Carreras, 20.

⁴³ Yu, “China’s Strategic Partnership with Latin America,” 14.

⁴⁴ Gallagher and Porzecanski, *The Dragon in the Room*, 2.

⁴⁵ Gallagher and Porzecanski, 2.

⁴⁶ Gallagher and Porzecanski.

⁴⁷ Gallagher and Porzecanski.

⁴⁸ Gallagher and Porzecanski, 1.

of economic performance are hard to ignore. Historically, LATAM favored the “Washington Consensus,” but some argue that the Chinese model for economic growth has outperformed Washington’s rules.⁴⁹

There have been economic winners and losers as a result of China’s increased engagement in LATAM.⁵⁰ The general consensus is that the “commodity lottery” is a significant factor in determining whether an economy is a “winner” or a “loser.”⁵¹ There are three tiers of countries as a result of increased trade with China. At the top are resource-rich countries, such as Chile and Peru.⁵² The second-tier countries produce both raw materials and manufactured goods, such as Brazil and Argentina.⁵³ The third-tier countries are negatively impacted by trade with China, such as Mexico and Caribbean.⁵⁴ The exports of Peru and Chile are complimentary to the Chinese market.⁵⁵ Therefore, these countries benefit the most from Chinese engagement.⁵⁶ On the other hand, Mexico produces mostly low-skilled manufactured goods, which directly competes with China for U.S. markets.⁵⁷

Some argue that there are more nuances to the degree of economic benefit and that it is incorrect to say that LATAM has only benefited commodity exporters and hurt manufacturing.⁵⁸ Additionally, there is no scholarly consensus about the degree to which Chinese exports helped or hurt the overall LATAM economy.⁵⁹ Therefore, the notion that LATAM as a whole has won or lost as a result of increased trade with China is nuanced.

⁴⁹ Gallagher and Porzecanski.

⁵⁰ Gallagher and Porzecanski, 2.

⁵¹ Alfredo Hardy. *The World Turned Upside Down: The Complex Partnership between China and Latin America* (Hackensack, NJ: World Scientific Publishing Co. 2014), 221.

⁵² Gonzalez, “Latin America in the Economic Equation—Winners and Losers,” 152.

⁵³ Gonzalez, 153.

⁵⁴ Gallagher and Porzecanski, *The Dragon in the Room*, 93.

⁵⁵ Gonzalez, “Latin America in the Economic Equation—Winners and Losers,” 150.

⁵⁶ Gonzalez, 149.

⁵⁷ Gonzalez, 152.

⁵⁸ Javier Santiso and Rolando Avendano. “Economic Fundamentals of the Relationship” in *China Engages Latin America*, eds. Adrian Hearn and Jose Leon-Manriquez (Boulder, CO: Lynne Rienner Publishers 2012), 68.

⁵⁹ Santiso, 77.

However, the general consensus is that LATAM countries that export commodities have benefited while manufacturing countries have not benefited, although the exact degree of benefit or loss is difficult to quantify.

In order to provide context for Chinese engagement, LATAM specific international relations are overviewed. Historically, LATAM relations have been viewed through a Eurocentric IR theory.⁶⁰ However, there is a distinct “international society” in LATAM due to “common values, norms, and institutions characterized by its legalistic tradition...enhancing the principles of sovereignty and nonintervention.”⁶¹ Regional norms have been manifested as using international law to prevent war, respect for territorial sovereignty, and “the use of morality in international relations; solidarity; and equality of states.”⁶² Foreign engagement and influence needs to be understood through these norms.

LATAM scholars have developed their own theory of foreign policy by taking “Latin America as an international society” into account.⁶³ The first distinction is Pro-Core versus Anti-Core.⁶⁴ Pro-Core ideology is manifested in multilateral institutions such as the Organization of American States (OAS), and is representative of hemispheric solidarity.⁶⁵ On the other hand, Anti-Core “can be considered as a case of cultural identity and nationalism at the regional level, beyond their common historical and ideological differences.”⁶⁶ Pro-core is associated with aligning with the U.S., and anti-core “typically celebrates the non-aligned movement, economic partners and political relationships with

⁶⁰ Amitav Acharya, “Global International Relations (IR) and Regional Worlds: A New Agenda for International Studies,” *International Studies Quarterly* 58, no. 4 (December 2014): 647, <http://onlinelibrary.wiley.com/doi/10.1111/isqu.12171/epdf>.

⁶¹ Arie Kacowicz, *The Impact of Norms in International Society: The Latin American Experience* (Notre Dame, IN: University of Notre Dame Press, 2005), 70.

⁶² Kacowicz, 40.

⁶³ Kacowicz, 45.

⁶⁴ Kacowicz, 49; Jeanne A. K. Hey, “Three Building Blocks of a Theory of Latin American Foreign Policy,” *Third World Quarterly* 18:4 (1997), 631, <http://www.jstor.org.libproxy.nps.edu/stable/3993209>.

⁶⁵ Kacowicz, *The Impact of Norms in International Society*, 52.

⁶⁶ Kacowicz.

non-traditional trading and diplomatic partners.”⁶⁷ A leader’s ideology was the strongest characteristic that pushed a country into either camp.⁶⁸

The second aspect of LATAM IR theory is dividing countries between “autonomous versus dependent.”⁶⁹ The latter makes decisions in line with a hegemonic power while an independent country makes decisions in line with its own wishes.⁷⁰ Examples of autonomous countries include Brazil and Mexico due to size, strength, location, or even due to lack of U.S. engagement.⁷¹ Additionally, as it pertains to Mexico, historical U.S. hegemony has driven international relations to a more autonomous state.⁷²

The last theory of LATAM specific IR is that of “economic vs. political.”⁷³ Theory says that political ideas are more subject to change than economic factors, which suggests that “Latin American policy makers are more constrained in the economic realm than in the political-diplomatic realm.”⁷⁴ One of the conclusions from the study is that “Latin American foreign policy remains in essence about dependence.”⁷⁵ According to the same author, international pressure seemed to influence foreign policy more than domestic considerations and the political-diplomatic choices may be easier to influence than economic decision making.

⁶⁷ Hey, “Three Building Blocks of a Theory of Latin American Foreign Policy,” 634.

⁶⁸ Hey, 641.

⁶⁹ Hey.

⁷⁰ Hey.

⁷¹ Hey, 642.

⁷² Hey, 643.

⁷³ Hey, 646.

⁷⁴ Hey, 650.

⁷⁵ Hey.

II. A CASE STUDY OF CHINESE ENGAGEMENT IN CHILE

A. SYNOPSIS

Perhaps more than any other LATAM country, Chile benefited the most economically from China.⁷⁶ Chile's structural economic realities determined its foreign policy which resulted in a system prone for engagement. Chile's economic compatibility was pre-determined by its resource-export dependency, which constrained its foreign policy. Chile received relatively more engagement from China due to its economic compatibility which also made Chile more prone to influence by Chinese engagement.

The overall level of Chinese engagement in Chile is evaluated as medium-high after examining the Chinese economic, political, military, business and social engagement since the turn of the century. The level indicated—medium-high—is not as important as recognizing that Chinese engagement in Chile is higher relative to the rest of LATAM even for its smaller size. Chile's size suggests that it is more susceptible to foreign influence. After establishing the independent variable as medium-high, the focus turns to the dependent variables of economic outlook and foreign policy.

This case study found that Chinese influence impacted the Chilean economic outlook to a medium degree while foreign policy was impacted to a low degree, suggesting that Chinese engagement yields more economic influence than political influence. Economic compatibility was the necessary condition in order for Chinese engagement to yield influence in the Chilean economy, showing that engagement breeds influence only under favorable conditions. The changes to the economic outlook and foreign policy are attributed to a mixture of both Chilean agency and Chinese hegemony. The central argument linking both case studies is that the underlying condition necessary for Chinese engagement to yield influence is the degree of economic compatibility because foreign policy is an extension of domestic policy, and domestic policy is constrained by economic realities.

⁷⁶ Ellis, *China in Latin America*, 34.

B. ESTABLISHING THE INDEPENDENT VARIABLE: THE EXTENT OF CHINESE ENGAGEMENT IN CHILE

The overall level of Chinese engagement in Chile since the turn of the century is averaged as medium-high. While there are variations in the level of engagement over the years, a static snapshot summarizing the average level of engagement since 2000 is displayed in Table 1. China's economic engagement with Chile was evident from the beginning of the twenty-first century and manifested in the first free-trade agreement (FTA) in LATAM. Even for a small country, presidential visits occurred frequently, and the content and coverage of the high-level meetings was clearly indicative of a positive relationship. While military engagement was low, business and social ties rapidly expanded since 2000. There are dozens of bilateral agreements and treaties signed between China and Chile just in the past two years.⁷⁷ The Chilean embassy in Beijing accurately summarized the expanding relationship, noting that the countries have “undergone rapid development in the political, economic-commercial, cultural and scientific-technological fields,” and that Chile has “the largest number of cooperation and trade facilitation instruments with China.”⁷⁸ This section outlines the evidence for the level of Chinese engagement listed in Table 1.

Table 1. Level of Chinese engagement in Chile

Overall	medium-high
Economic	medium-high
Political	medium-high
Military	low
Business	medium-high
Social	medium

Perhaps more than any other LATAM country, Chile benefited the most economically from the rise of China.⁷⁹ The most significant development in the China-

⁷⁷ “Agreements and Bilateral Treaties,” Embassy of Chile in China, accessed October 24, 2018, <https://chile.gob.cl/china/relacion-bilateral/acuerdos-y-tratados-bilaterales>.

⁷⁸ Embassy of Chile in China.

⁷⁹ Ellis, *China in Latin America*, 34.

Chile economic relationship was the 2005 FTA. Chile was the first LATAM country to sign a FTA with China.⁸⁰ The FTA took effect in 2006 and Chilean exports to China increased 140 percent the year after it was signed.⁸¹ In 2016, ten years after its implementation, the monetary value of trade was almost four and a half times higher than before the FTA.⁸² The full text of the FTA is available online, and is extensive, covering a wide range of products.⁸³ For context, China only has thirteen other FTAs, although there are several others currently under negotiation.⁸⁴ Within LATAM, only Chile, Peru, and Costa Rica have signed FTAs with China.⁸⁵ Since Chile was the first LATAM country to sign a FTA and because only two other countries in LATAM have FTAs, this justifies the economic engagement level as medium-high. Additionally, FTAs take rigorous diplomatic engagement, which shows that the FTA is indicative of increased political engagement.

During President Xi Jinping's trip to Chile in November 2016, a memorandum of understanding was signed revising the original FTA, and a year later Chilean President Bachelet and President Xi signed the updated FTA.⁸⁶ According to Chinese media, President Xi noted that "the upgraded agreement will unleash new impetus for the practical cooperation between China and Chile and set a new benchmark for China's cooperation with other Latin American countries as well as a new role model to the world."⁸⁷ Maintaining the FTA was clearly a priority for both countries and is evidence of continued Chinese economic engagement in Chile. Additionally, President Xi's statement implies

⁸⁰ "China-Chile FTA Upgrading Negotiation Concluded, Agreement Signed," China FTA Network, November 23, 2017, http://fta.mofcom.gov.cn/enarticle/enchile/enchilenews/201712/36339_1.html.

⁸¹ Ellis, *China in Latin America*, 34.

⁸² China FTA Network, "China-Chile FTA Upgrading Negotiation Concluded, Agreement Signed."

⁸³ "Home Page: China-Chile FTA," China FTA Network, accessed August 28, 2018, <http://fta.mofcom.gov.cn/topic/enchile.shtml>.

⁸⁴ China FTA Network.

⁸⁵ China FTA Network.

⁸⁶ "Xi, Bachelet Witness Upgrade of China-Chile FTA" Xinhuanet, November 12, 2017, http://www.xinhuanet.com/english/2017-11/12/c_136745308.htm.

⁸⁷ Xinhuanet.

that the China-Chilean FTA was a springboard for additional FTAs in LATAM and that Chile set the standard for the desired level of engagement.

The level of Chinese political engagement in Chile is medium-high after examining the frequency and content of presidential visits for the relatively small LATAM country. Similar to the level of economic engagement, the political engagement increased substantially in the twenty-first century. According to China-LATAM scholar Evan Ellis, the increased political engagement “reflect(s) the importance that each nation gives to the other as a trading partner.”⁸⁸ Taking this insight one step further, it is important to recognize that the levels of political and economic engagement are related. Increased economic engagement is made possible by increased political engagement. Consequently, economic and political engagement are intertwined and difficult to analyze separately. The 2005 FTA is a perfect example of the nature of this symbiotic relationship. Since economic and political engagement are related, and because the level of economic engagement is medium-high, the level of political engagement is also medium-high. This logic is well-founded because political engagement during FTA negotiations caused the increase in economic engagement and also because the complimentary nature of the two economies made political engagement more likely.

The easiest way to argue that the level of political engagement is medium-high is to examine the frequency of meetings between the heads of state. After reviewing the quantity and substance of the visits, there has clearly been a substantial increase in the level of political engagement by China in Chile since 2000. For example, President Jiang Zemin marked the first official head of state visit to Chile in 2001.⁸⁹ A head of state from China had never visited Chile prior to 2001. In addition, Chile was the first stop for President Zemin on a list of numerous LATAM countries, which included Argentina, Uruguay, Brazil, Cuba, and Venezuela.⁹⁰ According to Chinese state media, President Jiang chose

⁸⁸ Ellis, *China in Latin America*, 47.

⁸⁹ Ellis, 35.

⁹⁰ “President Jian Zemin Met with Chilean President Lagos and Other Official” Embassy of the People’s Republic of China in Papua New Guinea, April 6, 2001, <http://pg.china-embassy.org/eng/xwdt/t47411.htm>.

to visit Chile first because of Chile's "great importance to relations with Latin America."⁹¹ During the first state visit in April 2001, President Jiang noted that he wanted to "continue to strengthen and deepen bilateral cooperation...long-term stability, equality and mutual benefits in the twenty-first century."⁹² He added "that the world is moving towards multi-polarization. This is a demand for progress, which helps the establishment of a new international political and economic order."⁹³ Based off President Jiang's statement in 2001, it is apparent that China viewed a deeper relationship with Chile, and ultimately LATAM as an important part of China's role in the "new international political and economic order."⁹⁴ It is also interesting that he used the word "multi-polarization," given that this was several years before the term "peaceful rise" was used in government circles.⁹⁵ Since Chile was the first country in LATAM to be visited by the Chinese head of state and combined with the amicable tone of the visit, it is reasonable to conclude that Chile was at the top of the priority list for increased engagement. This visit justifies that the level of Chinese political engagement in Chile is calibrated correctly at medium-high.

In 2004, President Hu Jintao made the second head of state visit to Chile.⁹⁶ He visited Brazil and Argentina prior to landing in Santiago and meeting Chilean President Lagos. He reaffirmed the new state of relations that had been established in 2001.⁹⁷ There was no change to the tone and stated goals compared with the previous trip as reported by Chinese media.⁹⁸ There was agreement to increased cooperation and understanding across

⁹¹ Embassy of the People's Republic of China in Papua New Guinea.

⁹² Embassy of the People's Republic of China in Papua New Guinea.

⁹³ Embassy of the People's Republic of China in Papua New Guinea.

⁹⁴ Embassy of the People's Republic of China in Papua New Guinea.

⁹⁵ "Peaceful Rise" *The Economist*, June 24, 2004, <https://www.economist.com/asia/2004/06/24/peaceful-rise>.

⁹⁶ "Hu Jintao Arrives at Santiago and Starts the State Visit to Chile," Ministry of Foreign Affairs of the People's Republic of China, November 18, 2004, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/ldmzs_664952/gjlb_664956/3478_665028/3480_665032/t171154.shtml.

⁹⁷ Ministry of Foreign Affairs of the People's Republic of China.

⁹⁸ "Chinese President Hu Jintao Holds Talks with the Chilean President," Ministry of Foreign Affairs of the People's Republic of China, November 19, 2004, http://www.sice.oas.org/TPD/CHL_CHN/Negotiations/Talks2004_e.pdf.

a variety of areas and both sides affirmed the positive state of relations.⁹⁹ Of particular importance was the announcement starting the negotiations for the FTA, which was eventually signed in 2005.¹⁰⁰ President Hu noted that Chile was a “reliable friend” for a number of reasons.¹⁰¹ Chile was the first LATAM country to begin diplomatic ties and supported China’s involvement in the United Nations (UN) and World Trade Organization (WTO), as well as acknowledging its full economy status.¹⁰² Given the positive reporting in Chinese state media, this second visit shows the level of importance placed on the China-Chile political relationship and reflects the medium-high level of Chinese political engagement.

A year later in 2005, President Hu and President Lagos met in Busan for the signing of the FTA.¹⁰³ President Lagos noted that “Chile would like to work with China to make full use of the opportunity offered by the 35th anniversary of the establishment of diplomatic ties...and open a new and wonderful future.”¹⁰⁴ The themes were consistent with the prior visits and in line with the increased engagement and indicative of the closer status in China-Chile political and economic relations.

President Bachelet was elected in 2006 and met with President Hu that same year in Vietnam.¹⁰⁵ The substance of the meeting was consistent with past visits. Both sides acknowledged the improving relations and President Bachelet noted that Chile “as a good friend and partner, would help the development of relations between China and other Latin American countries.”¹⁰⁶ This implied that Chile had better relations with China compared

⁹⁹ Ministry of Foreign Affairs of the People’s Republic of China.

¹⁰⁰ Ministry of Foreign Affairs of the People’s Republic of China.

¹⁰¹ Ministry of Foreign Affairs of the People’s Republic of China.

¹⁰² Ministry of Foreign Affairs of the People’s Republic of China.

¹⁰³ “President Hu Jintao Meets with His Chilean Counterpart Lagos,” Ministry of Foreign Affairs of the People’s Republic of China, November 18, 2005, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/ldmzs_664952/gjlb_664956/3478_665028/3480_665032/t222614.shtml.

¹⁰⁴ Ministry of Foreign Affairs of the People’s Republic of China.

¹⁰⁵ “Hu Jintao Meets with Chilean President Bachelet,” Ministry of Foreign Affairs of the People’s Republic of China, November 18, 2006, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/ldmzs_664952/gjlb_664956/3478_665028/3480_665032/t280986.shtml.

¹⁰⁶ Ministry of Foreign Affairs of the People’s Republic of China.

to other LATAM countries and helps justify the level of Chinese engagement in Chile. On the next trip to China in 2008, President Bachelet met with President Hu and drew interest because of one quote in particular. She noted, “here is Chile and its people, and this president is aware of what that means.”¹⁰⁷ Aside from the interesting choice of words, the trip was filled with many of the same talking points from prior visits, namely increased dialogue, cooperation, trust, and exchanges.¹⁰⁸

In 2010, center-right candidate Pinera won the Chilean presidential election. That same year he met with President Hu in Beijing and had a similar meeting compared to President Bachelet.¹⁰⁹ There was no change to the talking points of increased cooperation, mutual benefits, exchanges, and the One-China policy.¹¹⁰ The presidents met again in 2012 to sign an additional agreement regarding the FTA.¹¹¹ In 2013, President Pinera met the new Chinese President Xi Jinping in Bali. As with previous meetings with the head of state, there were no changes to the content of the meeting. President Xi noted that Chile was “always at the forefront of Latin American countries... (and) have established (a) strategic partnership and have fully built bilateral FTA with stable and rapid development of bilateral relations.”¹¹² Despite a shift in domestic politics in Chile from President Bachelet to President Pinera and a change in the Chinese head of state, the nature of the political relationship showed no change, as evidenced by continued head of state visits and unchanged priorities.

¹⁰⁷ Ellis, *China in Latin America*, 47.

¹⁰⁸ “Hu Jintao Holds Talks with Chilean President Bachelet,” Ministry of Foreign Affairs of the People’s Republic of China, April, 13, 2008, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/ldmzs_664952/gjlb_664956/3478_665028/3480_665032/t425276.shtml.

¹⁰⁹ “Hu Jintao Holds Talks with His Chilean Counterpart,” Embassy of the People’s Republic of China in Malaysia, November 16, 2010, <http://my.china-embassy.org/eng/zgxw/t770261.htm>.

¹¹⁰ Embassy of the People’s Republic of China in Malaysia.

¹¹¹ “President Hu Jintao Attends the Signing Ceremony of Supplementary Agreement on Investment under the China-Chile Free Trade Agreement,” Ministry of Foreign Affairs of the People’s Republic of China, September 9, 2012, http://www.fmprc.gov.cn/mfa_eng/topics_665678/hjtcxytjhzzdescldrfzshy_665706/t969861.shtml.

¹¹² “President Xi Jinping Meets with President Sebastian Pinera of Chile,” Ministry of Foreign Affairs of the People’s Republic of China, October 7, 2013, http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwynmlxycx21apec_665682/t1085513.shtml.

President Bachelet was elected for the second time in 2014. Chinese President Xi visited Santiago for his first state visit to Chile in November of 2016.¹¹³ During this trip he noted that “China-Chile relations have entered a new phase featuring maturity and stability.”¹¹⁴ The status of relations was “upgraded...to a comprehensive strategic partnership.”¹¹⁵ Many of the same topics were discussed, President Xi noted that Chile and China enjoyed “many ‘firsts.’”¹¹⁶ Similar to prior visits, both countries agreed to continued cooperation. Additionally, both countries agreed to “firmly support each other’s independent choice of development path in line with its own natural conditions.”¹¹⁷ This meant that both countries would respect each other’s government system and domestic politics.

President Bachelet visited Beijing in 2017 which had interesting developments. In addition to normal talking points was talk about “development strategies within the ‘Belt and Road’ construction framework.”¹¹⁸ President Xi noted “that Latin America is one of the rising areas with the most development potential in the current world and an unceasingly rising and important force in the international pattern.”¹¹⁹ State media noted that “China is willing to make joint efforts with Chile to push China-Latin America to achieve mutual benefit and win-win results towards a higher level, a broader scope and greater depth, and jointly build a community of shared future for China and Latin

¹¹³ “Xi Jinping Arrives in Santiago for State Visit to the Republic of Chile,” Ministry of Foreign Affairs of the People’s Republic of China, November 23, 2016, http://www.fmprc.gov.cn/mfa_eng/topics_665678/XJPDEGDEBLZLJXGSFWBCXZBLLMJXDYTJHZZDESSCLDRFZSHY/t1418215.shtml.

¹¹⁴ “Xi Jinping Holds Talks with President Michelle Bachelet of Chile,” Ministry of Foreign Affairs of the People’s Republic of China, November 23, 2016, http://www.fmprc.gov.cn/mfa_eng/topics_665678/XJPDEGDEBLZLJXGSFWBCXZBLLMJXDYTJHZZDESSCLDRFZSHY/t1418638.shtml.

¹¹⁵ Ministry of Foreign Affairs of the People’s Republic of China.

¹¹⁶ Ministry of Foreign Affairs of the People’s Republic of China.

¹¹⁷ Ministry of Foreign Affairs of the People’s Republic of China.

¹¹⁸ “Xi Jinping Holds Talks with President Michelle Bachelet of Chile, Agreeing to Deepen China-Chile Comprehensive Strategic Partnership,” Ministry of Foreign Affairs of the People’s Republic of China, May 13, 2017, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/lmzs_664952/xwlb_664954/t1464026.shtml.

¹¹⁹ Ministry of Foreign Affairs of the People’s Republic of China.

America.”¹²⁰ In January of 2018, at the Community of Latin America and the Caribbean States (CELAC) meeting in Santiago, the Chinese foreign minister invited all of LATAM to join the One Belt, One Road (OBOR) initiative and noted the “peaceful development and the win-win strategy of opening up and...development dividends with all countries.”¹²¹ Santiago was an ideal location for this meeting given the China-Chile economic relationship and provided the perfect location for the springboard for increased Chinese engagement in LATAM. The invitation into the OBOR initiative for LATAM proposed in Chile provides further justification that Chinese engagement in Chile is medium-high and that Chinese engagement in LATAM has increased substantially this century.

President Pinera, a center-right candidate and prior businessman, took office for the second time in March of 2018. Prior to assuming office, he praised President Xi and noted that “the Asia-Pacific is the world of the future, and Chile is not only part of the area, but is also deeply committed to achieving greater economic integration and greater collaboration in this context.”¹²² A domestic newspaper headline reads, “Pinera plans to boost ties with China,” which is indicative of a relatively stable relationship, regardless of which party is in power.¹²³ After overviewing the political relationship, there has clearly been an increasingly robust relationship, regardless of who is president. With respect to establishing the level of Chinese political engagement, the frequency of the presidential visits, the remarks made during these visits, and the location of the announcement of including LATAM into OBOR, there is ample justification that the level of Chinese political engagement in Chile is medium-high.

Chinese military engagement with Chile should be looked at as an extension of political engagement. However, the China-Chile military relationship is low, as evidenced

¹²⁰ Ministry of Foreign Affairs of the People’s Republic of China.

¹²¹ Fabian Cambero and Dave Sherwood, “China Invites Latin America to take part in One Belt, One Road,” Reuters, January 22, 2018, <https://www.reuters.com/article/us-chile-china/china-invites-latin-america-to-take-part-in-one-belt-one-road-idUSKBN1FB2CN>.

¹²² “Pinera Plans to Boost Ties with China,” *Santiago Times*, December 19, 2017, <https://santiagotimes.cl/2017/12/19/pinera-plans-to-boost-ties-with-china/>.

¹²³ *Santiago Times*.

by the lack of material overlooking the relationship. Both countries have interests in the Pacific Ocean and share a long coastline. Evan Ellis notes that this reflects “the shared interests of both countries, as maritime nations, in the Pacific sea routes that carry increasing volumes of trade between them.”¹²⁴ What military engagement that does exist “includes an increasing number of military-to-military visits, training activities, and visits by military ships to each other’s ports.”¹²⁵ According to Chinese media, the Chinese and Chilean navy conducted exercises in October of 2013.¹²⁶

China-Chile business relations have grown substantially since the turn of the century and are evaluated at medium-high, showing that increased ties are not only limited to political, economic, or the military domains. Chile is known for its favorable business environment, and as a result, China-Chile business relations are among the best in LATAM.¹²⁷ Chile has a robust cadre of businesses who represented their country in a 2006 China-Chile economic forum which shows that Chile’s ability to engage China in the business realm is unmatched within LATAM.¹²⁸ Chilean businesses made efforts to advertise their image in China, suggesting they recognize the importance of China’s growing economic power.¹²⁹ Chilean state-run companies have had an increased presence in China, such as state-run copper company CODELCO.¹³⁰ In 2018, the Chilean foreign minister expressed a desire for increased ties with China, saying “we are in uncertain and complex times, and China is playing a very constructive role in addressing these complexities.”¹³¹ Due to the CELAC meeting being held in Santiago and the extension of

¹²⁴ Ellis, *China in Latin America*, 48.

¹²⁵ Ellis, 34.

¹²⁶ “Chinese, Chilean Navy Conduct Joint Exercise (5)” English.People.CN, October 14, 2013, <http://en.people.cn/102774/8424142.html>.

¹²⁷ Ellis, *China in Latin America*, 44.

¹²⁸ Ellis.

¹²⁹ Ellis, 43.

¹³⁰ Ellis, 44.

¹³¹ Felipe Iturrieta, “Chile Praises China’s ‘Constructive Role’ at Latin America Forum,” Reuters, January 21, 2018, <https://www.reuters.com/article/us-chile-china/chile-praises-chinas-constructive-role-at-latin-american-forum-idUSKBN1FA185>.

OBOR to LATAM, there is ample evidence that the groundwork has been set for increased business ties.

The last metric examined to determine the level of Chinese engagement is the extent of social ties, which was found to be medium. As with other aspects of the relationship, the social links have increased substantially. Chilean colleges have increased the number of Chinese courses available, including Mandarin language studies.¹³² As a result, the number of Chilean students studying Mandarin has increased and one writer noted that “institutes, universities, and colleges are responding to the demand of the Chileans with course(s), work-shops, university minors, and intensive summers in China.”¹³³ In addition, there are now two Confucius Institutes, one in Vina del Mar and one in Santiago.¹³⁴ A Confucius Institute is a Chinese Communist Party (CCP) funded learning center that “promotes Chinese language and culture,” however, critics say that they present “an idealized version of Chinese history and culture” and are a method of influencing public opinion.¹³⁵

In the past several years, the number of Chinese tourists to Chile has increased substantially, another reflection of the increased social ties. In 2008, there were 6,000 Chinese tourists, 11,000 in 2014, and 23,000 in 2016.¹³⁶ The Chinese community in Chile, growing from 7,000 people in 2008 to 30,000 in 2018, helped facilitate the increasing number of tourists and is indicative of the growing relationship.¹³⁷ For the sake of comparison, the number of U.S. tourists in Chile was just over 200,000 in 2016, and Europe

¹³² Ellis, *China in Latin America*, 45.

¹³³ Ellis, 46.

¹³⁴ Lezak Shallat, “Confucius Goes to China,” *New Internationalist*, June 2, 2009, <https://newint.org/features/2009/06/01/chile>.

¹³⁵ Wesley Rahn, “Why Is the U.S. Targeting China’s Confucius Institute?” *DW*, April 16, 2018, <https://www.dw.com/en/why-is-the-us-targeting-chinas-confucius-institute/a-43403188>.

¹³⁶ “Chile Eyes Tourism Market in China,” *Santiago Times*, November 21, 2016, <https://santiagotimes.cl/2016/11/21/chile-eyes-tourism-market-in-china/>; Evan Ellis, “China’s Relationship with Chile: The Struggle for the Future Regime of the Pacific,” *Jamestown*, November 2, 2017, <https://jamestown.org/program/chinas-relationship-chile-struggle-future-regime-pacific/>.

¹³⁷ Ellis, “China’s Relationship with Chile: The Struggle for the Future Regime of the Pacific.”

and South America have higher numbers of tourists compared to China.¹³⁸ However, the increase in Chinese tourism is significant because of how rapid the increase has been.

After examining the economic, political, military, business, and social aspect of Chinese engagement in Chile since 2000, the overall level of engagement is medium-high. On a relative scale to LATAM, Chinese engagement in Chile is higher than other countries. The next section examines the dependent variables and outlines the changes in the Chilean economic outlook and foreign policy in the twenty-first century. The last section attributes the changes to a mixture of both Chilean agency and Chinese hegemony.

C. ANALYZING THE DEPENDENT VARIABLE: CHANGE DUE TO CHINA

1. Changes in the Economic Outlook

This section argues that the increased Chinese engagement influenced the Chilean economic outlook to a medium extent and the political outlook to a low extent, which is illustrated in Table 2. Examining the economic statistics and overviewing the foreign policy consistency helps validate these levels of influence. Chile's net exports increased significantly since 2000. The exports increased substantially starting around 2005, as evident from Figure 1, and the exports remain substantially higher in 2018 compared with the figures before increased Chinese engagement.¹³⁹ The twenty-first century has seen China replace the U.S. as Chile's top trading partner, which is shocking after considering that China was Chile's 15th largest trading partner in 1995.¹⁴⁰ China overtook the U.S. as Chile's largest trading partner in 2016, growing from just over eight billion in 2005 to over \$31 billion in 2015.¹⁴¹ As of 2018, China remains Chile's top trading partner.¹⁴² Using

¹³⁸ "Chile Received Record Number of Tourists in 2017," *Santiago Times*, January 10, 2018, <https://santiagotimes.cl/2018/01/10/chile-received-record-number-of-tourists-in-2017/>.

¹³⁹ "Chile Exports," Trading Economics, accessed October 25, 2018, <https://tradingeconomics.com/chile/exports>.

¹⁴⁰ Hearn and Leon-Manriquez, *China Engages Latin America*, 165.

¹⁴¹ "Chile Hails China as Its Top Trading Partner," *ChinaDaily*, March 22, 2016, http://www.chinadaily.com.cn/business/2016-03/22/content_24018001.htm.

¹⁴² "Chilean Foreign Trade in Figures," TradePortal, August 2018, <https://en.portal.santandertrade.com/analyse-markets/chile/foreign-trade-in-figures>.

2017 data, Chile exports 27 percent of its goods to China, followed by 14.5 percent to the U.S., followed by Japan, South Korea, and Brazil.¹⁴³ Using 2017 figures, Chile imports the most from China at 23.9 percent, followed by the U.S. at 18.1 percent, and then followed by Brazil, Argentina, and Germany.¹⁴⁴

Table 2. Change due to Chinese engagement

Chile 2000-2018	
Δ Economically	Δ Foreign policy
medium	low

Examining the balance of trade data using the figures as reported by both Chile and China paints a similar story regarding the increased economic ties. The trade relationship gradually increased in the early 2000s. After the FTA, the trade numbers spiked dramatically.¹⁴⁵ Using the figures reported by Chile, the exports to China in 2004 were just \$3,278,000,000, but by 2007, the figure was over \$10,202,000,000.¹⁴⁶ Presumably, it took several years for the private sector to adapt to the 2005 FTA. After examining the trends in the balance of trade data before and after the FTA, it stands to reason that China is responsible for a substantial portion of the increased Chilean economic outlook because of the timing of the spike in trade numbers. This supports the assertion that Chinese engagement impacted the Chilean economic outlook to a medium extent.

¹⁴³ TradePortal.

¹⁴⁴ TradePortal.

¹⁴⁵ Hearn and Leon-Manriquez, *China Engages Latin America*, 23.

¹⁴⁶ Hearn and Leon-Manriquez, 12.

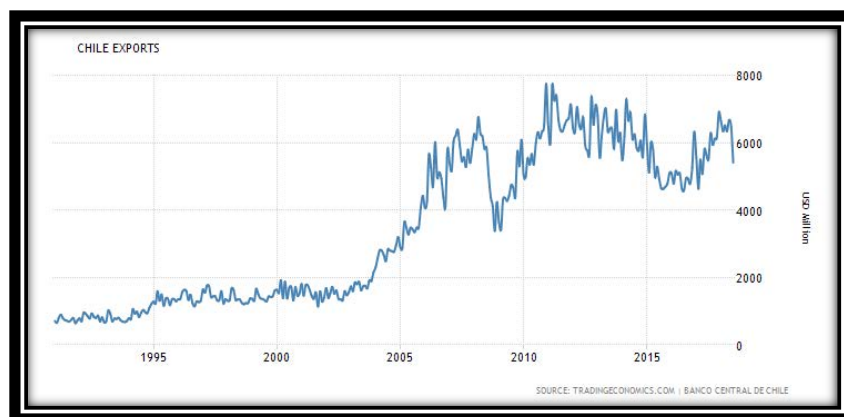


Figure 1. Chile exports, increasing since 2000¹⁴⁷

The Chilean economy changed dramatically in size since 2005, but only marginally in scope. The bulk of the Chilean exports to China are still dominated by copper, comprising over 80 percent of Chilean exports in 2007.¹⁴⁸ Chile is the top copper exporter in the world.¹⁴⁹ In 2016, copper made up about half of total Chilean exports.¹⁵⁰ Due to the FTA, other goods such as salmon, cherries, avocados, grapes, and wine have been exported to China.¹⁵¹ However, the FTA has only helped Chile diversify its exports marginally. Chile's exports are still dominated by commodities, mainly copper.

The most shocking factor regarding Chile's trade relations since the turn of the century is that the U.S. was supplanted by China as its largest trading partner.¹⁵² Chile became increasingly reliant on Chinese economic growth and subsequent demand for copper. Given that China is Chile's top trading partner and due to Chile's dependence on copper exports, China's economic engagement has influenced the Chilean economy to a

¹⁴⁷ Source: Trading Economics, "Chile Exports."

¹⁴⁸ Ellis, *China in Latin America*, 34.

¹⁴⁹ Benedict Mander, "Chile Is Canary in Copper Mine as Price of Metal Falls," *Financial Times*, July 30, 2018, <https://www.ft.com/content/416bb312-8ea6-11e8-b639-7680cedcc421>.

¹⁵⁰ Mander.

¹⁵¹ "Chilean President on State Visit to China from May 12–15," *Santiago Times*, May 11, 2017, <https://santiagotimes.cl/2017/05/11/chilean-president-bachelet-starts-state-visit-to-china-today/>.

¹⁵² "Chile Hails China as Its Top Trading Partner," Xinhuanet, March 22, 2016, http://www.xinhuanet.com/english/2016-03/22/c_135211927.htm

moderate extent because it made the Chilean economy more reliant on Chinese growth and more vulnerable to shifts in Chinese demand for copper.

At nearly one-fifth of Chile's GDP, copper provided much of Chile's economic growth and helped build the present-day China. Even a small change in the price of copper can have a huge result on the Chilean economic outlook, demonstrating the increased interconnectedness between China and Chile.¹⁵³ The Chinese urban expansion on the coast helped sustain the price of copper, but the growth is not forecasted to continue at the same rate forever, and common sense says that this level of construction cannot indefinitely continue.¹⁵⁴ Copper is used in many areas of construction, including electronics, electricity, plumbing, and wiring. Chilean copper mines could eventually lose productivity due to diminishing returns and as the demand from China inevitably slows, this could compound and negatively impact Chile's economic outlook.¹⁵⁵ The Chilean copper industry has a relatively constant copper output and the income from increased Chinese copper demand increased from 2.1 billion to 11.5 billion in the first eleven years of the century.¹⁵⁶ The price of copper is still well-within the historical normal price range, and the increase in Chinese copper demand has clearly been positive for the Chilean economy.¹⁵⁷ As a result of increased Chinese engagement, the China-Chile relationship and interconnectedness has grown and impacted the Chilean economy to a moderate degree.

Even though China's economic expansion was beneficial for the Chilean economy, it is not intellectually consistent to portray Chinese growth as the sole reason for economic development since 2000. In a world with fluctuating copper prices due to global supply and demand, the conventional understanding is that Chile is too dependent on copper. Even

¹⁵³ Mander, "Chile is Canary in Copper Mine as Price of Metal Falls."

¹⁵⁴ "Copper Solution," *The Economist*, April 27, 2013, <https://www.economist.com/business/2013/04/27/copper-solution>.

¹⁵⁵ *The Economist*.

¹⁵⁶ *The Economist*.

¹⁵⁷ "Copper: Latest Prices & Chart for High Grade Copper," NASDAQ, accessed August 28, 2018, <https://www.nasdaq.com/markets/copper.aspx?timeframe=10y>.

so, the Organization for Economic Co-operation and Development (OECD) has an optimistic forecast for the Chilean economy in 2018.¹⁵⁸ According to the forecast, “growth is projected to accelerate to around 3.6% in the coming years supported by an improving external outlook and favourable financial conditions.”¹⁵⁹ Even though the last few years have been relatively stagnate for economic development—something largely influenced by China’s economic slowdown—the positive forecast is a reflection of the strong domestic foundation. Even though economic growth cycles have a substantial impact on Chilean exports because of the over-reliance on exporting commodities, the domestic fundamentals are still strong. Additionally, the Chilean economy weathered economic cycles previously, as it also supplied “construction and manufacturing sectors in the United States, Europe and, more recently, Asia.”¹⁶⁰ It is also important to note that Chile signed a FTA with the U.S. that took effect in 2004 which increased trade.¹⁶¹ It would be inaccurate to describe increased trade with China as the sole reason for economic growth since 2000. However, since China is Chile’s largest trading partner, it is reasonable to conclude that Chinese engagement and trade is the single biggest factor which impacted the Chilean economy since 2000.

There are other measures that show that the Chilean economy has improved since the turn of the century, independent of Chinese economic influence. For example, Gross National Product (GNP) has climbed steadily since 2000.¹⁶² GNP is another useful measure for understanding economic performance, particularly when attempting to control for Chile’s over-reliance on exporting commodities.¹⁶³ Additionally, the Chilean hourly

¹⁵⁸ “Chile—Economic Forecast Summary,” OECD, accessed August 28, 2018, <http://www.oecd.org/economy/chile-economic-forecast-summary.htm>; Martin Burnett, “In Chile, the Economy’s Struggles Go Well beyond Politics,” Stratfor, March 16, 2017, <https://worldview.stratfor.com/article/chile-economys-struggles-go-well-beyond-politics>.

¹⁵⁹ OECD.

¹⁶⁰ Burnett, “In Chile, the Economy’s Struggles go Well beyond Politics.”

¹⁶¹ U.S. Commercial Service, *Doing Business in Chile, 2010* (Washington, DC: U.S. Department of Commerce, 2010).

¹⁶² “Chile Gross National Product,” Trading Economics, accessed October 25, 2018, <https://tradingeconomics.com/chile/gross-national-product>.

¹⁶³ Richard Cloutier, “Measuring a Nation’s Economic Development,” Investopedia, last modified March 13, 2018, <https://www.investopedia.com/articles/07/gross-national-product.asp>.

wage has increased slowly yet consistently since 2000, putting more take-home money into people's pockets.¹⁶⁴ While Chinese engagement has undoubtedly influenced the Chilean economic performance, there are other domestic factors that show that China's engagement is only one of many factors contributing to Chilean economic performance.

The Chilean economy, similar to any other, has gone through many cycles. The economy grew slowly for most of the twentieth century. However, in the mid-1980s to the mid-1990s, the country experienced an economic boom known as Chile's "golden period."¹⁶⁵ GDP growth during the 1980s and 1990s was just over seven percent annually, which was significantly higher than in the decades past.¹⁶⁶ The Asian financial crisis in 1997 hit all of LATAM hard, and Chile was no exception. While the Chilean economy has grown since the turn of the century, the growth rates are nowhere near the "golden period."

The Chilean economy is adept at making the adjustments necessary to thrive, and the economy is well-managed. Especially since the 1980s, the government has done an excellent job of managing the economy and providing the structural mechanisms for growth. As pointed out by Jose De Gregorio in a paper for the Central Bank of Chile, the economy has been successful due to "low inflation," "sound fiscal policy," a "strong financial sector," "openness to trade," "strong institution and regulation of business," and strong investment in infrastructure."¹⁶⁷ Additionally, the economy benefited from its climate and abundance of minerals.¹⁶⁸ Trade is only one of the several reasons that the economy was successful. While the Chinese demand for copper helped the economy grow, it was not the only factor that determined Chile's economic performance and needs to be understood in the context of Chile's historical economic performance and well-governed

¹⁶⁴ "Chile Hourly Wage," Trading Economics, accessed October 25, 2018, <https://tradingeconomics.com/chile/wages>.

¹⁶⁵ Jose Gregorio, "Economic Growth in Chile: Evidence, Sources and Prospects," Banco Central de Chile, last modified November 2004, 5, http://siteresources.worldbank.org/INTCHILEINSPANISH/Resources/Economic_Growth_Chile.pdf.

¹⁶⁶ Gregorio.

¹⁶⁷ Gregorio.

¹⁶⁸ Felipe Larrain, Jeffrey Sachs, and Andrew Warner, "A Structural Analysis of Chile's Long-Term Growth: History, Prospects and Policy Implication," Semantic Scholar, January 2000, <https://pdfs.semanticscholar.org/30b6/663cf896103515e1e292a30c96f451cdeeb5.pdf>.

institutions. However, the Chilean economy was still impacted to a medium degree by Chinese engagement due to the extent of the China-Chilean trade relationship. The growing extent of the China-Chilean trade relationship is illustrated in Figure 2 and Figure 3 with the rapid increase in Chilean exports to China from 2000 to 2016.

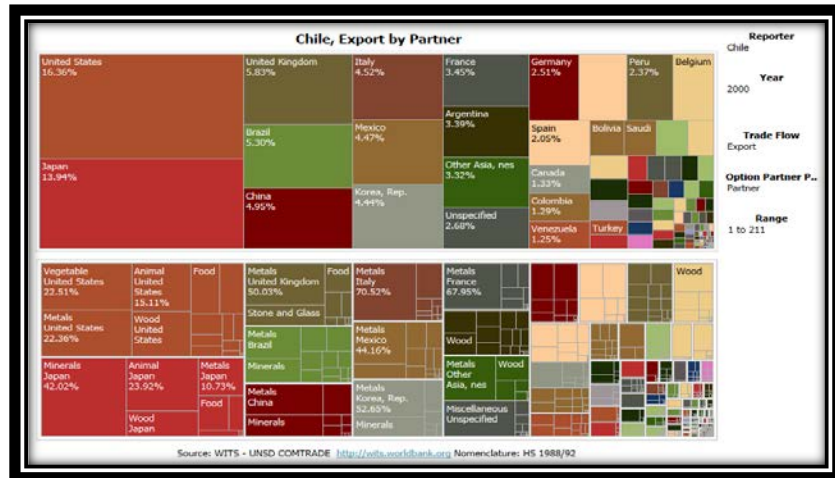


Figure 2. Chile exports by partner in 2000; China at 4.95%¹⁶⁹

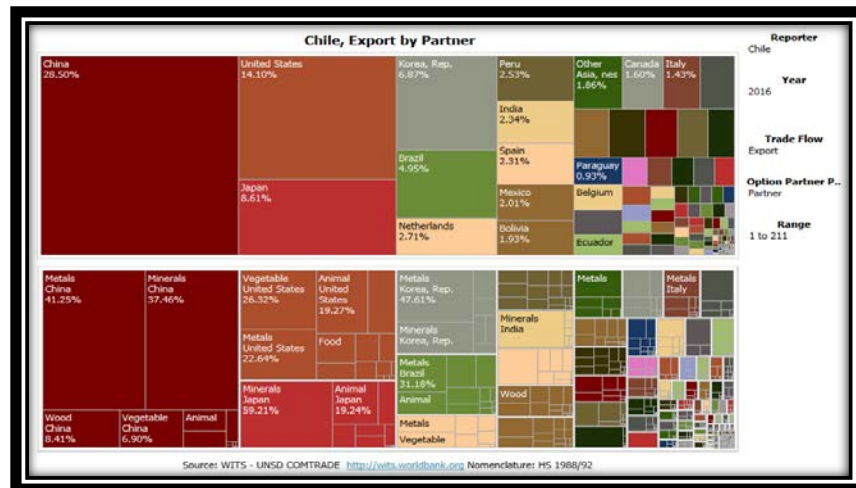


Figure 3. Chile exports by partner in 2016; China at 28.50%¹⁷⁰

¹⁶⁹ Source: "Country Analysis," World Integrated Trade Solution, accessed August 29, 2018, <http://wits.worldbank.org/visualization/country-analysis-visualization.html>.

¹⁷⁰ Source: World Integrated Trade Solution.

2. Changes in the Foreign Policy

Chilean foreign policy since the turn of the century has been remarkably consistent despite the increase in Chinese engagement. This foreign policy consistency is apparent even after domestic changes in power, as President Bachelet and President Pinera were both elected to two terms in office. In fact, this actually helps explain some of the consistency and the lack of change in foreign policy. Additionally, the structure of the Chilean economy and dependence on exports constrained foreign policy changes which lead to stable foreign policy. Especially in the case of Chile, foreign policy and economic outlook are difficult to analyze separately because they are inextricably related. Domestic media has noted this intertwined relationship, noting that “most of Chile’s economic policy, (is) disguised as foreign affairs... (and) the agreement revolves around trade.”¹⁷¹ Chile has a long history of aggressively pursuing trade deals and has a “propensity toward economic opportunism and a desire to be everybody’s darling.”¹⁷²

According to the Chilean Ministry of Foreign Affairs, there are three principles of foreign policy. They are “respect for international law,” “promotion of democracy and respect for human rights,” and “responsibility to cooperate.”¹⁷³ These principles are undoubtedly influenced by history; Chile became a democracy in 1990. The economic status of Chile as the highest GDP per capita country in LATAM has been influenced by institutions, geography, and history, which contributed to a stable foreign policy.

Historically, Chilean foreign policy has been viewed as pragmatic due to the “‘economization’ of its foreign policy.”¹⁷⁴ Chile was traditionally aligned with western countries and benefited from “‘globalization,’ understood as economic dynamism beyond

¹⁷¹ “Chile’s New BFF,” *Santiago Times*, November 28, 2016, <https://santiagotimes.cl/2016/11/28/chile-china-new-bff-fta/>.

¹⁷² *Santiago Times*.

¹⁷³ “Principles of Chile’s Foreign Policy,” Ministry of Foreign Affairs of Chile, accessed August 28, 2018, https://minrel.gob.cl/minrel/site/edic/base/port/politica_exterior_eng2.html.

¹⁷⁴ Joaquin Fernandois, “Pragmatism, Ideology, and Tradition in Chilean Foreign Policy since 1990,” in *Latin American Foreign Policies*, eds. Gian Gardini and Peter Lambert (New York: Palgrave Macmillan, 2011), 36.

borders.”¹⁷⁵ Across party lines, the relationship between economics and foreign policy contributed to the “high degree of consistency,” as Chile pursued trade deals globally, from the E.U. and the U.S. to China.¹⁷⁶ This relationship has also limited politician’s ability to enact changes at home, such as forcing President “Bachelet to attenuate her more radical views.”¹⁷⁷ The election of President Pinera brought minor changes to foreign policy, especially toward Cuba and Venezuela, however the administration was “careful to avoid direct confrontation,” and changes were limited for the same reasons as prior administrations.¹⁷⁸

The themes of “economic opportunism” and consistency continued in the twenty-first century.¹⁷⁹ Chilean foreign policy and the economy are intertwined to a greater degree than other countries due to geography and their resource-export dependency. The Andes Mountains, as well as a history of conflict between their neighbors are reasons Chile has been forced to pursue relations with countries outside its continent.¹⁸⁰ The Pacific Ocean is Chile’s gateway to the world and cordial foreign relations translate into economic and business opportunities. Regardless of who is in power, trade deals are essential for economic success. Isolationism is not an option given the nature of the economy. Due to the rise of China, and since Chile was strategically situated on the Pacific, there was a certain degree of inevitability regarding improving China-Chile foreign relations.¹⁸¹ Just as Chile’s commodity exports supported economic development in the U.S. and Europe, it was inevitable that Chile would do the same for another rising power. However, despite Chinese engagement, the fundamental principles of Chilean foreign policy remain unchanged.

¹⁷⁵ Fermandois, 36.

¹⁷⁶ Fermandois, 44.

¹⁷⁷ Fermandois, 47.

¹⁷⁸ Fermandois, x.

¹⁷⁹ *Santiago Times*, “Chiles New BFF.”

¹⁸⁰ Fermandois, “Pragmatism, Ideology, and Tradition in Chilean Foreign Policy since 1990,” 36.

¹⁸¹ Nicholas Kristof, “The Rise of China,” *Foreign Affairs* 72, no. 5, (Nov.–Dec. 1993), 59, <https://www.jstor.org/stable/pdf/20045814.pdf?refreqid=excelsior%3Ad9a5b135d97bb02dceea42e54c904294>.

D. AGENCY VS. HEGEMONY

The last section argues that changes to the Chilean economic outlook and foreign policy were influenced by both Chinese hegemony and Chilean agency. Summarizing the earlier findings, the level of Chinese engagement in Chile is medium-high. Chile's economic outlook was influenced to a medium degree due to Chinese engagement, while foreign policy was influenced to a low degree. The underlying condition necessary for Chinese engagement to yield influence in LATAM is the degree of economic compatibility because foreign policy is an extension of domestic policy, and domestic policy is constrained by economic realities.

1. Chinese Hegemony: Hypothesis #1

In the case of Chinese hegemony, the Chinese economic growth and engagement increased the interconnectedness between Chile and China and made the Chilean economy more reliant on the Chinese economy. The most visible example of Chinese political and economic engagement influencing the Chilean economic outlook was the 2005 FTA. As outlined earlier, the China-Chile FTA was the result of Chinese engagement and was periodically updated. Both economies were able to benefit from the agreement because they were compatible, which also brought the countries closer together.

Chinese hegemony indirectly explains the low extent of change in Chilean foreign policy. In Chile, foreign and economic policy are difficult to differentiate. Therefore, a change economically has implications for foreign policy and vice versa. Changes to the economic outlook could impact foreign policy, such as increasing the number of presidential visits to countries with strong economic ties. Even though there were no major shifts in Chilean foreign policy goals and ideology, it is difficult to brush aside the changing economic relationship which has a close foreign policy link.

2. Chilean Agency: Hypothesis #2

Chilean agency explains the economic changes since 2000. The domestic institutions governing the Chilean economy set the groundwork for economic success long before increased Chinese engagement. Domestic policies influenced by Chilean history

and geography are responsible for the historic economic performance more than budding Chinese hegemony. The mining culture and mentality contributed to this economic performance.¹⁸² Even though an increase in Chinese demand for copper helped economic growth, the already established domestic institutions facilitated the benefits from the increased economic engagement. The economic compatibility also precipitated the increase in trade. This compatibility originated with Chile's border changes following the War of the Pacific and economic reforms under Pinochet, while the Chinese economic reforms were started by Deng Xiaoping. Chilean agency, manifested through its own history, domestic politics, institutions, and culture, contributed to the level of economic compatibility, which is the necessary condition for engagement to yield influence.

Chilean agency explains the lack of foreign policy change since 2000. This is apparent after considering that foreign policy is an extension of domestic policy. "In Chile, the outward-orientated and pro-private sector economic focus is institutionalized in the constitutional structures," meaning that foreign policy is influenced by constitutional constraints in Chilean institutions.¹⁸³ Additionally, before the increase in Chinese engagement, scholars argued that the U.S.-Chile relationship was influenced by "domestic institutional and political factors," so it is reasonable to assume that this would extend to the relationship with China.¹⁸⁴ There are Chilean foreign policy constraints due to domestic economic realities and the internal "Chilean political institutional structure...(that) promote(s) consensus policy-making."¹⁸⁵ Lastly, Chilean foreign policy "has reflected domestic concerns to ensure...continued economic growth and development."¹⁸⁶ These internal constraints that impact foreign policy are the result of Chilean domestic agency.

¹⁸² "Chilean Miners—How their Cultural Values Helped them to Overcome their Ordeal," Communicaid, accessed November 11, 2018, <https://www.communicaid.com/cross-cultural-training/blog/chilean-miners-how-their-cultural-values-helped-them-to-overcome-their-ordeal/>.

¹⁸³ David Mares and Francisco Aravena, *Coming in from the Cold: The United States and Chile* (New York: Routledge, 2001), 49.

¹⁸⁴ Mares and Aravena.

¹⁸⁵ Mares and Aravena, 54.

¹⁸⁶ Fermandois, "Pragmatism, Ideology, and Tradition in Chilean Foreign Policy since 1990," 49.

The implications for foreign influence, soft power, and the increasing economic power that China has displayed in Chile should not be ignored. Joseph Nye coined the term “soft power” and described it as “the indirect way to get what you want without tangible threats or payoffs” and it “rests on the ability to shape the preferences of others.”¹⁸⁷ According to Nye, the three main ways to get soft power come from culture, the political values, and foreign policies.¹⁸⁸ President Pinera noted that “China has been gaining ground in Latin America in part because China has been pursuing it and partly because the United States is stepping back.”¹⁸⁹ This is in line with the conventional understanding that suggests that China is increasing its influence in LATAM at the expense of the U.S.¹⁹⁰

The most substantial increase of Chinese hegemony comes from the increase in economic power. Economic power is defined as “the ability to control or influence the behavior of others through the deliberate and politically motivated use of economic assets.”¹⁹¹ Nye lists the behaviors of economic power as “inducement” and “coercion.”¹⁹² Chile successfully used a “balking” strategy to counter U.S. pressure to support the Iraq invasion in 2003 before the U.S.-Chile FTA was signed.¹⁹³ Even though Chinese engagement in Chile has not seen displays of economic power, it is worth noting that “the

¹⁸⁷ Joseph Nye, *Soft Power* (New York: PublicAffairs, 2004), 5.

¹⁸⁸ Nye, 11.

¹⁸⁹ Ernesto Londono, “In Chile, a Billionaire Takes the Reins from a Socialist, Again,” *New York Times*, March 10, 2018, <https://www.nytimes.com/2018/03/10/world/americas/chile-president-pinera-bachelet.html>.

¹⁹⁰ Andres Oppenheimer, “China Is Eating America’s Lunch in Latin America—and Trump is Helping,” *Miami Herald*, December 21, 2017, <https://www.miamiherald.com/news/local/news-columns-blogs/andres-oppenheimer/article191041634.html>.

¹⁹¹ Ellen Frost, “What Is Economic Power,” *Questia*, accessed August 28, 2018, <https://www.questia.com/magazine/1G1-195427684/what-is-economic-power>.

¹⁹² Nye, *Soft Power*, 31.

¹⁹³ Nancy Lapp, “Resistance Is Util (Useful): Responses to Brazilian Hegemony,” in *Beyond Great Powers and Hegemons: Why Secondary States Support, Follow, or Challenge*, eds. Kristen Williams and Steven Lobell and Neal Jesse (Stanford, CA: Stanford University Press, 2012), 152.

relations between hegemons and followers is dynamic and may ebb and flow over time in a continuing process of negation and renegotiation.”¹⁹⁴

¹⁹⁴ Neal Jesse, Steven Lobell, Galia Press-Barnathan, and Kristen Williams, “The Leader Can’t Lead When the Followers Won’t Follow: The Limitations of Hegemony,” in *Beyond Great Powers and Hegemons: Why Secondary States Support, Follow, or Challenge*, eds. Kristen Williams and Steven Lobell and Neal Jesse (Stanford, CA: Stanford University Press, 2012), 24.

III. A CASE STUDY OF CHINESE ENGAGEMENT IN MEXICO

A. SYNOPSIS

To a greater degree than any other LATAM country, Mexico was negatively impacted by China.¹⁹⁵ Mexico's structural economic and political factors did not create an environment ideal for Chinese engagement and influence. Mexico's lack of economic compatibility was determined by its manufacturing similarities, which also constrained its foreign policy. Mexico received a relatively low level of engagement for its size due to its economic incompatibility and its relationship with the U.S.

The overall level of Chinese engagement in Mexico is evaluated as low after examining the level of economic, political, military, business and social engagement since the turn of the century. The low level of engagement is despite Mexico being the larger of the two countries used as case studies. After establishing the independent variable as low, the focus turns to the dependent variables of economic outlook and foreign policy.

This case study found that the Mexican economic outlook and foreign policy were impacted to a minimal extent by Chinese engagement and influence, which suggests that low levels of engagement yield low levels of influence and that influence is difficult to attain in a rival economy. Changes in the relationship between Mexico and China need to be understood in the context of U.S.-China-Mexico relations and the historic relationship with the U.S. The changes to the economic outlook and foreign policy are best explained by Mexican agency through domestic politics, although there is a minimal amount attributed to Chinese hegemony. The central argument linking both case studies is that the underlying condition necessary for Chinese engagement to yield influence is the degree of economic compatibility because foreign policy is an extension of domestic policy, and domestic policy is constrained by economic realities.

¹⁹⁵ Gallagher and Porzecanski, *The Dragon in the Room*, 83.

B. ESTABLISHING THE INDEPENDENT VARIABLE: THE EXTENT OF CHINESE ENGAGEMENT IN MEXICO

The overall level of Chinese engagement in Mexico since the turn of the century is averaged as low. While there are variations in the level of engagement, especially during President Nieto's administration, a static snapshot summarizing the average level of engagement since 2000 is displayed in Table 3. China's low level of economic engagement was evident from the lack of serious talks about a China-Mexico FTA. For a large country, the frequency of presidential visits was not commensurate with Mexico's size and several of these visits only occurred during G20 meetings. Chinese military engagement was low, but business and social engagement were medium. The twenty-first century economic tension and the recent improvement in relations is implicitly evident in the Embassy of Mexico's website, noting the "unique moment in the relations," and the "unprecedented dynamism that has deepened the relationship," and a "growing complementarity."¹⁹⁶ The rest of this section outlines the evidence for the level of Chinese engagement in Table 3.

Table 3. The level of Chinese engagement in Mexico

Overall	low
Economic	low
Political	low
Military	low
Business	medium-low
Social	medium

Mexico is frequently cited as the quintessential example of a LATAM country losing out economically due to China's economic expansion and increased trade.¹⁹⁷ The conventional wisdom is that the Mexican economy was negatively impacted by China, perhaps more than any other country in LATAM.¹⁹⁸ Unlike Chile, Peru, and Costa Rica,

¹⁹⁶ "Economic Relationship," Embassy of Mexico in China, accessed October 24, 2017, <https://embamex.sre.gob.mx/china/index.php/es/la-embajada/relacion-economica>.

¹⁹⁷ Gallagher and Porzecanski, *The Dragon in the Room*, 83.

¹⁹⁸ Gallagher and Porzecanski.

Mexico does not have a FTA with China and there is not one under negotiation.¹⁹⁹ Mexico and China have similar economies based on manufacturing, which has resulted in Mexico's economy losing out due to China's economic gains.²⁰⁰ With respect to Chinese economic engagement, in 2017, the Chinese ambassador to Mexico expressed interest in pursuing a FTA.²⁰¹ The ambassador noted that the countries are closely linked, because "Mexico is China's second-largest trading partner in Latin America and China is Mexico's second-largest trading partner in the world."²⁰² He added, "this is a highly important relationship and we have a great interest in deepening and broadening these ties."²⁰³ When compared economically to China, Mexico is a country of second place. This status is a microcosm for the relationship with China.

There were inklings of a Chinese willingness for a trade deal as far back as 2013, however, the topic became more prevalent in recent years due to U.S. domestic politics regarding the North American Free Trade Agreement (NAFTA).²⁰⁴ However, the balance of trade favors China to such a great degree that it is difficult to justify how a China-Mexico FTA is in Mexico's interest. As of 2018, there are no China-Mexico FTA negotiations underway.²⁰⁵ There is clearly a Chinese interest in increased economic engagement via a FTA, however due to the competitiveness and lack of mutual benefit, there has been no headway. The absence of continued interest and serious negotiations helps justify Chinese economic engagement as low.

¹⁹⁹ "News Release," China FTA Network, September 17, 2018, <http://fta.mofcom.gov.cn/english/index.shtml>.

²⁰⁰ Gallagher and Porzecanski, *The Dragon in the Room*, 88.

²⁰¹ Adam Jourdan, "China Open to Free-trade Agreement with Mexico: Xinhua," Reuters, June 28, 2017, <https://www.reuters.com/article/us-china-mexico-trade/china-open-to-free-trade-agreement-with-mexico-xinhua-idUSKBN19K01Z>.

²⁰² Jourdan.

²⁰³ Jourdan.

²⁰⁴ David Agren, "China President visits Mexico amid Tensions over Cheap Goods," *USA Today*, June 4, 2013, <https://www.usatoday.com/story/news/world/2013/06/04/mexico-china-jinping/2388197/>.

J. Weston Phippen, "Mexico Plays the 'China Card,'" *The Atlantic*, September 4, 2017, <https://www.theatlantic.com/international/archive/2017/09/mexico-nafta-plan-b/538620/>.

²⁰⁵ Ministry of Commerce of the PRC, "China FTA Network."

The average level of Chinese political engagement in Mexico is low, especially when compared on a relative scale in LATAM and after considering Mexico's size. However, the level of Chinese political engagement increased with President Nieto's administration starting in 2012.²⁰⁶ As with the previous case study, the easiest way to establish the level of political engagement is to examine the frequency and content of visits between the heads of state. These high-level meetings are the best measure to quantify the level of political engagement.

Mexico was not on President Jiang's 2001 itinerary for his LATAM tour.²⁰⁷ President Jiang visited Chile, Argentina, Uruguay, Brazil, Cuba, and Venezuela during this trip.²⁰⁸ However, in 2003, Chinese Premier Wen went to Mexico City.²⁰⁹ During this meeting, China and Mexico established a strategic partnership and agreed to "five proposals" which outlined closer ties across a variety of sectors.²¹⁰ Premier Wen noted that ties "have withstood the test of time and vicissitudes on the international arena, (and) are at the best period for development."²¹¹ The Premier acknowledged the historical variation in relations, and clearly favored increased engagement. Premier Wen's statement provides insight into the priority level Mexico was for China and the historic level of Chinese political engagement.

In 2004, President Hu Jintao did not visit Mexico despite a trip to Argentina, Brazil, Chile, and Cuba.²¹² However, during this trip President Hu met President Vicente Fox in

²⁰⁶ "China-Mexico Ties Increasingly Strategic," Xinhuanet, November 17, 2015, http://www.xinhuanet.com/english/2015-11/17/c_134823059.htm.

²⁰⁷ "Jiang Zemin to Start Latin America Tour," china.org.cn, April 1, 2001, <http://www.china.org.cn/english/2001/Apr/9917.htm>.

²⁰⁸ China.org.cn.

²⁰⁹ "China, Mexico Establish Strategic Partnership," PRC Embassy in the Republic of Estonia, December 13, 2003, <http://www.fmprc.gov.cn/ce/ceee/eng/dtxw/t111998.htm>.

²¹⁰ PRC Embassy in the Republic of Estonia.

²¹¹ PRC Embassy in the Republic of Estonia.

²¹² Larry Rohter, "China Widens Economic Role in Latin America," *New York Times*, November 20, 2004, <https://www.nytimes.com/2004/11/20/world/asia/china-widens-economic-role-in-latin-america.html>.

Santiago after an Asia-Pacific Economic Cooperation (APEC) meeting.²¹³ The tone of the meeting was amicable according to Chinese state media, noting an improving state of relations and increased cooperation, notably “on the issues related to Taiwan and human rights.”²¹⁴ President Fox noted that “Mexico is paying attention to China’s economic development and contributions to the world trade development in an active manner.”²¹⁵ Chinese Vice President Zheng Quinghong visited Mexico shortly after President Hu’s trip.²¹⁶ It is notable that the vice president went to Mexico instead of President Hu and is reflective of the lower priority level China gave Mexico. Additionally, President Fox’s statement has an underlying theme of economic competitiveness.

In 2005, in-between a trip to Canada and the U.S., President Hu visited Mexico City and met with President Fox.²¹⁷ It had been eight years since a Chinese president went to Mexico, and Chinese state media noted that the trip was aimed at “strengthening high-level dialogue between both sides, building up mutual trust and friendship...to realize the goal of common development.”²¹⁸ However, as with previous meetings, there were underlying economic tensions. The balance of trade significantly favored China, which now exported \$31 of goods to Mexico for every one dollar Mexico exported.²¹⁹ An expert on the China-Mexico relationship noted that “the real relationship between the People’s Republic of China and Mexico is very tense...this ratio of 31 to1, which is only going to grow in the short run, is not only a social problem but could become a political

²¹³ “Hu Meets with Leaders after APEC Meeting,” People’s Daily Online, September 17, 2018, http://en.people.cn/200411/23/eng20041123_164819.html.

²¹⁴ “President Hu Jintao Meets with His Mexican Counterpart Vicente Fox,” Ministry of Foreign Affairs of the People’s Republic of China, November 22, 2011, http://www.fmprc.gov.cn/mfa_eng/topics_665678/huvisit_665888/t171658.shtml.

²¹⁵ Ministry of Foreign Affairs of the People’s Republic of China.

²¹⁶ Ellis, *China in Latin America*, 213.

²¹⁷ “President Hu Arrives in Mexico for Visit,” China Daily, September 12, 2005, http://www.chinadaily.com.cn/english/doc/2005-09/12/content_476903.htm.

²¹⁸ “Hu Jintao Arrived in the City of Mexico, Beginning His State Visit,” Ministry of Foreign Affairs for the PRC, September 11, 2005, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/xos_664404/gjlb_664408/3336_664670/3338_664674/t212599.shtml.

²¹⁹ James McKinley Jr., “Mexico Builds Trade Ties with China,” *New York Times*, September 13, 2005, <https://www.nytimes.com/2005/09/13/world/mexico-builds-trade-ties-with-china.html>.

problem.”²²⁰ Similar to the previous meeting, President Fox spoke about the balance of trade and “contraband Chinese goods” during this visit.²²¹ That same visit, during a trip to the Mexican Supreme Court and Senate, President Hu “got stuck in a broken elevator for 15 minutes,” an event that seems emblematic of a larger theme in China-Mexico relations.²²² The visits content, choice of words, and the focus on economic relations helps justify that the level of Chinese political engagement in Mexico was low.

In 2007, President Hu met with President Felipe Calderon in Berlin, where President Hu remarked that development continued since establishing ties in 1972 and the 2003 strategic partnership.²²³ In 2008, President Hu met with President Calderon again in Beijing, and again noted that diplomatic ties were going well and expressed the desire to keep enhancing ties across the board.²²⁴ Of note, the President thanked Mexico for its position on Taiwan and Tibet and for the “adherence of Mexico to the one-China policy.”²²⁵ However, in 2009, the swine flu outbreak in Mexico caused tensions again when China quarantined Mexican citizens in China and sent a plane to pick up vacationing Chinese in Mexico.²²⁶ Ultimately, one Mexican citizen in China was found to have H1N1, but the Chinese and Mexican responses did not improve political ties.²²⁷

In 2010, the Chinese foreign minister traveled to Mexico and “gave (President) Calderon regards from President Hu,” and noted that “China always views the China-

²²⁰ McKinley.

²²¹ McKinley.

²²² McKinley.

²²³ “President Hu Jintao Meets with His Mexican Counterpart Calderon,” Ministry of foreign Affairs of the PRC, June 8, 2007, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/xos_664404/gjlb_664408/3336_664670/3338_664674/t328721.shtml.

²²⁴ “Hu Jintao Holds Talks with Mexican President Calderon,” Ministry of Foreign Affairs of the People’s Republic of China, July 11, 2008, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/ldmzs_664952/xwlb_664954/t474768.shtml.

²²⁵ Ministry of Foreign Affairs of the People’s Republic of China.

²²⁶ Mica Rosenberg, “Flu Spat Cools Budding Mexico-China Relationship,” Reuters, May 5, 2009, <https://www.reuters.com/article/idINIndia-39436020090505>.

²²⁷ Rosenberg.

Mexico relations from a strategic perspective.”²²⁸ However, it was not until 2012, several years after the swine flu incident that President Calderon and President Hu met again in Mexico before the G20 summit.²²⁹ Many of the same talking points were presented and President Calderon noted that there were similar issues facing them, because they are both developing countries “amid complex changes of the current international situation.”²³⁰ President Calderon noted that “Mexico attaches importance to China’s propositions and role in the G20.”²³¹ President Calderon’s tenure was not a time of increased Chinese engagement with Mexico, however this would change with his successor.

Enrique Pena Nieto became President of Mexico in 2012, and his presidency resulted in more China-Mexico engagement and increased heads of state visits. President Nieto was a member of the Institutional Revolutionary Party (PRI), while President Fox and President Calderon were members of the National Action Party (PAN). Positive changes to the relationship were previously sought by President Calderon, but the difficulties in achieving a more robust relationship were constrained by economic factors and unforeseen circumstances such as the swine flu response. The Mexican economy has a historic overreliance on the U.S., which means it could benefit politically from enhanced Chinese relations, but it is also directly competing with China for the U.S. market.²³² Therefore, there are structural factors pushing Mexico toward and away from China at the same time.

In 2013, President Nieto and President Xi met three times, signaling an improving political relationship and increased engagement. In April of 2013, President Nieto went to

²²⁸ “Mexican President Calderon Meets with Yang Jiechi,” Ministry of Foreign Affairs of the People’s Republic of China, July 30, 2010, https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/ldmzs_664952/gjlb_664956/3508_665108/3510_665112/t721107.shtml.

²²⁹ “President Hu Jintao Meets with His Mexican Counterpart Calderon,” Ministry of Foreign Affairs of the People’s Republic of China, June 18, 2012, http://www.fmprc.gov.cn/mfa_eng/topics_665678/phjtdsg20_665710/t943276.shtml.

²³⁰ Ministry of Foreign Affairs of the People’s Republic of China.

²³¹ Ministry of Foreign Affairs of the People’s Republic of China.

²³² Antonio Hsiang, “Three Reasons Why it’s Time for Mexico to Pivot to China,” *Mexico News Daily*, July 5, 2018, <https://mexiconewsdaily.com/opinion/its-time-for-mexico-to-pivot-to-china/>.

China and discussed ways to increase ties.²³³ During the trip, President Xi expressed a desire to “deepen the strategic mutual trust,” “promote mutual benefits,” “enhance cultural communications,” and lastly “keep closer multilateral coordination.”²³⁴ Later that year, President Xi went to Mexico and the relationship was upgraded from a “strategic partnership” to a “comprehensive strategic partnership.”²³⁵ The agreement was known colloquially as the “tequila pact,” which was an effort to improve the balance of trade and also improve the name recognize of Mexican goods in China.²³⁶ Among the standard talking points about increasing bilateral ties, China announced the decision to “build a Chinese cultural center in Mexico City, the first in Latin America and the Caribbean.”²³⁷ Additionally, Mexico expressed support for the One-China policy and “considers Tibet and Taiwan to be ‘an inalienable part’ of Chinese territory.”²³⁸ President Xi also visited Mayan ruins during the trip while being escorted by President Nieto.²³⁹ Just a few months later in September, the Presidents met again in St. Petersburg before a G20 summit and talked about how well the previous visit had transpired.²⁴⁰

The first year of the Nieto Presidency was a significant year for the China-Mexico relationship. Under the previous administration in 2011, President Calderon met with the

²³³ “President Xi Jinping Holds Talk with His Mexican Counterpart Enrique Pena Nieto, Stressing China Always Views and Develops Relations with Mexico from a Strategic Perspective,” Ministry of Foreign Affairs of the People’s Republic of China, April 6, 2013, https://www.fmprc.gov.cn/mfa_eng/topics_665678/boao_665692/t1028784.shtml.

²³⁴ Ministry of Foreign Affairs of the People’s Republic of China.

²³⁵ “China, Mexico Enter Comprehensive Strategic Partnership,” China Daily, June 5, 2013, http://www.chinadaily.com.cn/china/2013xivisit/2013-06/05/content_16568655.htm.

²³⁶ “Xi Jinping and Pena Nieto Sign the ‘Tequila Pact,’ Broaden Relations,” Fox News, June 5, 2013, <http://www.foxnews.com/politics/2013/06/05/xi-jinping-and-pena-nieto-sign-tequila-pact-broaden-relations.html>.

²³⁷ Xinhuanet, “China, Mexico Enter Comprehensive Strategic Partnership.”

²³⁸ Fox News, “Xi Jinping and Pena Nieto Sign the ‘Tequila Pact,’ Broaden Relations.”

²³⁹ “Xi Jinping Visits Ancient Mayan Ruins of Chichen Itza Accompanied by President Pena Nieto Calling on China and Mexico to Take Cultural Nourishment from Each Other,” Ministry of Foreign Affairs of the People’s Republic of China, June 7, 2012, https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/ldmzs_664952/gjlb_664956/3508_665108/3510_665112/t1050212.shtml.

²⁴⁰ Ministry of Foreign Affairs of the People’s Republic of China.

Dalai Lama which precipitated a strongly worded Chinese response.²⁴¹ The Chinese Foreign Ministry noted that “this grossly interferes in China’s internal affairs, hurt the feelings of the Chinese people, and damages China-Mexico relations.”²⁴² According to a scholar, the meeting with the Dalai Lama resulted in relations being “the most tense in the past 40 years.”²⁴³ However, President Nieto did not meet with the Dalai Lama during a trip to Mexico in 2013.²⁴⁴ Instead, President Nieto agreed to the One-China policy and stated that Mexico “recognize(d) the principle of ‘one China,’ and considers Tibet and Taiwan to be ‘an inalienable part of Chinese territory.’”²⁴⁵ The differences between President Calderon and President Nieto in handling the Dalai Lama’s trips and the number of presidential meetings validates that the frequency of visits between heads of state is a legitimate reflection of state relations and also commensurate with the level of engagement.

President Nieto and President Xi continued to meet with increased frequency. They met in Beijing in 2014 and “charted the course” for increased ties and improved relations.²⁴⁶ In 2015, during a meeting in Turkey, Xi noted that “China-Mexico ties are becoming more strategic with larger global influence.”²⁴⁷ In 2016, the leaders met again in China during the G20 summit, noting a desire to “deepen (the) comprehensive strategic partnership.”²⁴⁸ During this meeting, President Nieto advocated for the Bank of China to open in Mexico, which is indicative of desired closer economic ties and also demonstrates

²⁴¹ “China Opposes Mexican President’s Meeting with Dalai Lama,” *China Daily*, September 10, 2011, http://www.chinadaily.com.cn/china/2011-09/10/content_13665204.htm.

²⁴² *China Daily*.

²⁴³ “No Official Welcome for Dalai Lama in Mexico,” *South China Morning Post*, October 12, 2013, <https://www.scmp.com/news/world/article/1329686/no-official-welcome-dalai-lama-mexico>.

²⁴⁴ *South China Morning Post*.

²⁴⁵ Fox News, “Xi Jinping and Pena Nieto Sign the ‘Tequila Pact,’ Broaden Relations.”

²⁴⁶ “Xi Jinping Holds Talks with President Enrique Peña Nieto of Mexico, Stressing Promotion of Development of China-Mexico Comprehensive Strategic Partnership,” Embassy of the People’s Republic of China in the USA, November 13, 2014, <http://www.china-embassy.org/eng/zgyw/t1211381.htm>.

²⁴⁷ Xinhuanet, “China-Mexico Ties Increasingly Strategic.”

²⁴⁸ “China, Mexico to Deepen Comprehensive Strategic Partnership,” Xinhuanet, September 4, 2016, http://www.xinhuanet.com/english/2016-09/04/c_135659274.htm.

the link between economic and political engagement.²⁴⁹ There were also similar talking points about improving relations and ways of making this happen.²⁵⁰ In 2017, they met again in China and President Xi commented that they “should synergize development strategies.”²⁵¹ This particular visit came amid a backdrop of uncertainty about the future of NAFTA, which largely stemmed from U.S. domestic politics.²⁵² In August of 2018, the U.S. announced a new trade deal with Mexico, widely regarded as an updated NAFTA.²⁵³ Even with the improvement in relations under President Nieto, the overall level of Chinese political engagement is low because the independent variable treats the level of engagement as an average over the twenty-first century.

There has been limited military engagement between China and Mexico, and a subsequent low level of Chinese military engagement. The early 2000s saw only several instances of military meetings and exchanges.²⁵⁴ However, this relationship increased in recent years.²⁵⁵ In October of 2016, both countries agreed to “strengthen military cooperation and elevate mutual ties to a new high.”²⁵⁶ Increased military ties need to be viewed as a subset of political ties. The general consensus in the media coverage was that

²⁴⁹ “Pena Nieto Hopes Bank of China Will Soon Operate in Mexico,” *San Diego Union Tribune*, September 4, 2016, <http://www.sandiegouniontribune.com/hoy-san-diego/sdhoy-pena-nieto-hopes-bank-of-china-will-soon-operate-2016sep04-story.html>.

²⁵⁰ “Xi Jinping Meets with President Enrique Pena Nieto of Mexico,” Ministry of Foreign Affairs of the PRC, September 4, 2016, https://www.fmprc.gov.cn/mfa_eng/topics_665678/XJPCXBZCESGJTLDRDSYCFHJCXYGHD/t1395067.shtml.

²⁵¹ “Xi Stresses China-Mexico Strategic Synergy,” Xinhuanet, September 4, 2017, http://www.xinhuanet.com/english/2017-09/04/c_136583000.htm.

²⁵² “Mexico President to Visit China to Boost Trade amid NAFTA Talks,” Reuters, August 28, 2017, <https://www.reuters.com/article/us-trade-nafta-mexico-china/mexico-president-to-visit-china-to-boost-trade-amid-nafta-talks-idUSKCN1B820S>.

²⁵³ Russel Price, “The Hidden Gems of the Trade Deal,” *The Hill*, August 31, 2018, <http://thehill.com/opinion/finance/404532-the-hidden-benefits-of-the-us-mexico-trade-deal>.

²⁵⁴ Ellis, *China in Latin America*, 214.

²⁵⁵ Franklin Foer, “Mexico’s Revenge,” *The Atlantic*, May 2017, <https://www.theatlantic.com/magazine/archive/2017/05/mexicos-revenge/521451/>.

²⁵⁶ “China, Mexico Vow to Elevate Military Ties to New High,” Ministry of Defense of the People’s Republic of China, October 28, 2016, http://eng.mod.gov.cn/DefenseNews/2016-10/28/content_4755159.htm.

China-Mexican ties were increasing due to U.S. politics.²⁵⁷ Therefore, the agreement needs to be understood through the context of the U.S. political climate in 2016. Even with the 2016 China-Mexican military agreement, the overall level of Chinese military engagement in Mexico is low, even after accounting for a one-off military agreement that was made at an opportune time for engagement.

China-Mexico business ties are strong and are calibrated at medium-low. Businesspeople have accompanied government visits at all levels, such as Mexican businesspeople going with the mayor-elect of Mexico City on a trip abroad to China.²⁵⁸ Mexican businesspeople frequently take trips to China and often attend conferences.²⁵⁹ Many have taken trips abroad to help facilitate Chinese exports to Mexico and vice versa.²⁶⁰ Mexican companies have worked to become more active in the Chinese market. There are three main strategies that these companies use in order to achieve this goal.²⁶¹ They try to sell to the increasing Chinese middle class, work with established Chinese businesses to improve infrastructure, and lastly attempt to export products with Mexican name recognition.²⁶²

Social engagement between China and Mexico is the most developed variable of engagement and is calibrated at medium. The Chinese community in Mexico has a presence in the northern Mexican cities of Tijuana and Mexicali.²⁶³ However, there is hostility to the tight-knit Chinese community as their businesses are frequently robbed and the community is marginalized in domestic media.²⁶⁴ Much of this hostility is explained

²⁵⁷ “After Trump’s Win, China and Mexico Move to Deepen Ties,” Reuters, December 12, 2016, <https://www.reuters.com/article/us-mexico-china-idUSKBN142027>.

²⁵⁸ Ellis, *China in Latin America*, 211.

²⁵⁹ Ellis, 212.

²⁶⁰ Ellis.

²⁶¹ Ellis, 208.

²⁶² Ellis, 209.

²⁶³ Adrian Hearn, Alan Smart, and Roberto Hernandez, “China and Mexico: Trade, Migration, and Guanxi,” in *China Engages Latin America*, eds. Adrian Hearn and Jose Leon-Manriquez (Boulder, CO: Lynne Rienner Publishers, 2011), 152.

²⁶⁴ Hearn, Smart, and Hernandez.

by economic tensions.²⁶⁵ As it relates to education, Mexico had one of the first universities that offered Chinese studies and their “intellectual infrastructure is among the best developed in Latin America.”²⁶⁶ Thirty universities in Mexico teach Chinese, and Mexico was the first country in LATAM to have a Confucius Institute.²⁶⁷ There are currently five Confucius Institutes in Mexico, the highest number in LATAM.²⁶⁸ These institutes are “aimed explicitly at building familiarity with China among Mexican academics and students, and at facilitating cultural convergences in general.”²⁶⁹ The Chinese government enabled tourists to visit Mexico in 2004 and the number of flights connecting the countries increased.²⁷⁰ There are now two airlines and eight direct flights a week that link the countries.²⁷¹

After examining the economic, political, military, business, and social aspect of the extent of Chinese engagement since 2000, the overall level of engagement is low. The next section examines the dependent variables and outlines the changes in the Mexican economic outlook and foreign policy in the twenty-first century. The last section attributes the changes mostly to Mexican agency, but also to a small degree of Chinese hegemony.

C. ANALYZING THE DEPENDENT VARIABLE: CHANGE DUE TO CHINA

1. Changes in the Economic Outlook

This section argues that the low level of Chinese engagement since 2000 influenced the Mexican economic and political outlook to a low extent, which is illustrated in Table 4. This is done by examining the economic statistics and overviewing the foreign policy.

²⁶⁵ Hearn, Smart, and Hernandez.

²⁶⁶ Ellis, *China in Latin America*, 212.

²⁶⁷ Ellis.

²⁶⁸ “Confucius Institutes in Latin America,” Instituto Confucio, accessed September 17, 2018, http://institutoconfucio.ugr.es/pages/enlaces/enlaces_confucio_hispanoamerica?lang=en#__doku_mexico.

²⁶⁹ Hearn, Smart, and Hernandez, “China and Mexico,” 154.

²⁷⁰ Ellis, *China in Latin America*, 213.

²⁷¹ “Stronger China Relations Underline Mexico’s Look-East Policy,” *South China Morning Post*, September 5, 2017, <https://www.scmp.com/comment/insight-opinion/article/2109674/stronger-china-relations-underline-mexicos-look-east-policy>.

After examining the economic data and the foreign policy changes, it is clear that Mexican agency is the primary driver of economic and political change. This does not suggest that Chinese economic growth has not impacted Mexico because of the competitiveness. However, Chinese engagement, by itself has produced minimal changes in the Mexican economic outlook and foreign policy.

Table 4. Change due to Chinese engagement

Mexico 2000-2018	
Δ Economically	Δ Foreign policy
low	low

The Mexican economy has changed little due to Chinese engagement but has been impacted to a great degree by China's economic expansion. The academic literature singles out Mexico as the biggest loser resulting from China's growth.²⁷² Most of the economic competition between China and Mexico stems from competition over the U.S. market.²⁷³ Mexico has historically stood in the shadow of the U.S. economy, leading to an "asymmetrical" economic relationship with the U.S.²⁷⁴ This relationship resulted in a Mexican economy that was overly-reliant on the U.S. due to Mexico's reliance on exports to the U.S.²⁷⁵ The result is that Mexico is more dependent on the U.S. than the reverse.²⁷⁶ Furthermore, economic slowdowns in the U.S. disproportionately hurt Mexico; it has been noted that "when the U.S. sneezes, Mexico catches a cold."²⁷⁷ The balance of trade data

²⁷² Gallagher and Porzecanski, *The Dragon in the Room*, 83.

²⁷³ Jose Leon-Manriquez, "China's Relations with Mexico and Chile: Boom for Whom?" in *China Engages Latin America*, eds. Adrian Hearn and Jose Leon-Manriquez (Boulder, CO: Lynne Rienner Publishers, 2011), 167.

²⁷⁴ Roderic Camp, *Mexico: What Everyone Needs to Know* (Oxford: University Press, 2011), 21.

²⁷⁵ Camp.

²⁷⁶ Camp.

²⁷⁷ Elisabeth Malkin, "When the U.S. Sneezes, Mexico Catches Cold," *New York Times*, December 30, 2008, <https://www.nytimes.com/2008/12/30/business/worldbusiness/30iht-30peso.18988868.html?module=ArrowsNav&contentCollection=International%20Business&action=keypr ess®ion=FixedLeft&pgtype=article>.

exemplifies this relationship. In 2000, Mexico had 88.12 percent of its exports going to the U.S., and in 2016, 81.03 percent of Mexican exports still went to the U.S.²⁷⁸ By contrast, the U.S. exported 13.80 percent of its total exports to Mexico in 2000 and 15.84 percent to Mexico in 2016.²⁷⁹ This shows that the Mexican economy is less diversified than the U.S.

Mexico has lost out due to Chinese economic growth. In 2003, China surpassed Mexico as the second largest exporter to the U.S., and overtook Canada in the aftermath of the great recession to become the largest exporter to the U.S.²⁸⁰ This is in spite of the geographic advantages Mexico has in being on the same continent. The trends in the Mexican economy since 2000 are highlighted by increased competition from China for the U.S. market and continued economic reliance on the U.S.

The percent change in Mexican exports to China since 2000 would be a good indicator that Chinese engagement pulled the countries closer together and changed the Mexican economic outlook. Presumably, successful Chinese economic engagement would significantly increase the percentage of Mexican exports to China and vice versa. However, the changes in the Mexican and Chinese exports were minimal for the past two decades, especially after considering how low they started. In 2000, the percentage of Mexican total exports going to China was .19 percent.²⁸¹ By 2016, it was only 1.45 percent, barely moving one percent even during the years of China's rapid economic growth.²⁸² For the total percentage of Chinese exports going to Mexico it was .54 percent in 2000 and 1.54 percent in 2016.²⁸³ Even though these numbers reflect an increase, for countries that are both manufacturing giants and in the G20, these percentages are extremely low and exemplify the economic incompatibility. These percentages are also another example of Mexico's economy being impacted to a minimal degree by Chinese engagement.

²⁷⁸ World Integrated Trade Solution, "Country Analysis."

²⁷⁹ World Integrated Trade Solution.

²⁸⁰ Leon-Manriquez, "China's Relations with Mexico and Chile," 167.

²⁸¹ World Integrated Trade Solution, "Country Analysis."

²⁸² World Integrated Trade Solution.

²⁸³ World Integrated Trade Solution.

The balance of trade disparity between China and Mexico is astonishing given how much it favors China. The total export percentages examined previously are slightly misleading and the balance of trade numbers put the economic relationship in a new context. The real numbers are a reflection of China's economic competitiveness. In 2009, Mexico imported \$14.5 from China for every one dollar it exported.²⁸⁴ This disparity is important for a variety of reasons, one of the main ones being that it hurts Mexican GDP because GDP is calculated using net exports. Chinese exports are clearly more competitive than Mexican exports. After examining the real numbers in the balance of trade since 2000, it is clear that the asymmetry grew in favor of China to the detriment of Mexico.²⁸⁵

To get a full understanding of Mexico's economic performance since the turn of the century, it is useful to examine several indicators of Mexican economic performance. Mexican GDP declined as a result of the 2008 financial crisis as it was hurt by the decline in the U.S. economy.²⁸⁶ Additionally, in terms of total GDP, Mexico experienced a downturn from 2014–2016.²⁸⁷ However, the 2018 OECD macroeconomic forecast for Mexico is positive, predicating low unemployment, low inflation, and positive growth due to reforms.²⁸⁸ Lastly, the balance of trade data encapsulates the trend in the Mexican net exports mostly due to China. For the past twenty years, the balance of trade is seldom in Mexico's favor and continually deteriorated, which is illustrated in Figure 4.

²⁸⁴ Leon-Manriquez, "China's Relations with Mexico and Chile," 167.

²⁸⁵ Hearn and Leon-Manriquez, *China Engages Latin America*, 12.

²⁸⁶ Malkin, "When the U.S. Sneezes, Mexico Catches Cold."

²⁸⁷ "Mexico GDP," Trading Economics, accessed November 29, 2018, <https://tradingeconomics.com/mexico/gdp>.

²⁸⁸ "Mexico—Economic Foreign Summary (May 2018)," OECD, accessed September 18, 2018, <http://www.oecd.org/eco/outlook/mexico-economic-forecast-summary.htm>.

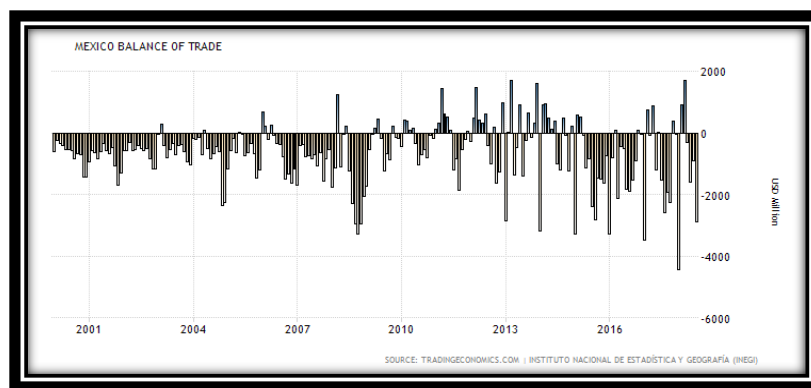


Figure 4. Mexico's balance of trade became more pronounced²⁸⁹

2. Changes in the Foreign Policy

The next section overviews the highlights of Mexican foreign policy, especially as it pertains to China, by presidential administration since the turn of the century. In the 1990s, the Mexican attitude about foreign policy began to gradually shift, “the traditional perception of the outside as a source of evils...(had) been replaced by a perspective that emphasizes the opportunities the world offers.”²⁹⁰ In 2000, Mexico became a true democracy by demonstrating that an incumbent party could give up power with the election of President Vicente Fox.²⁹¹ Prior to President Fox, Mexico's foreign policy was lacking due to self-imposed isolationism.²⁹² By the turn of the century, President Fox knew that Mexico's geography could play a role in its new foreign policy, and sought to find a way to use this to link North America with South America.²⁹³ Additionally, a new foreign policy offered him an opportunity to “mark a clear break with the PRI,” the historically

²⁸⁹ Source: “Mexico Balance of Trade,” Trading Economics, accessed September 18, 2018, <https://tradingeconomics.com/mexico/balance-of-trade>.

²⁹⁰ Jorge Chabat, “Mexican Foreign Policy in the 1990s: Learning to Live,” in *Latin American Nations in World Politics*, eds. Haraldo Munoz and Joseph Tulchin (Oxford: Westview Press, 1996), 159.

²⁹¹ Loretta Bondi, *Beyond the Border and Across the Atlantic: Mexico's Foreign and Security Policy Post-September 11th* (Washington, DC: Center for Transatlantic Studies, 2004), xi.

²⁹² Bondi.

²⁹³ Bondi.

dominate party.²⁹⁴ Mexico's ascent foreign policy was based off "international human rights and multilateralism."²⁹⁵ Mexico tried to make itself an increasingly relevant player in the international system.²⁹⁶ The early years of President Fox's foreign policy were characterized by ideology instead of pragmatism, however this would change after 9/11.²⁹⁷

Mexico's diplomatic changes with the U.S. were completely altered by 9/11. "The first PAN government tried to join a liberal, post-Cold War order that abruptly changed," and 9/11 complicated the U.S.-Mexico relationship.²⁹⁸ The complications resulted from the war on terror and the U.S. desire to invade Iraq.²⁹⁹ Despite a friendly relationship between President Bush and President Fox, Mexico was not supportive of the invasion and issues such as immigration reform were no longer a U.S. priority.³⁰⁰ The other foreign policy shift during President Fox's administration was an increased emphasis on human rights, even at the expense of state sovereignty.³⁰¹ Secretary of Foreign Affairs Castaneda explained the shift in 2001, saying "it has been stated that the defense and the promotion of human rights constitute an internal matter of each country...Mexico does not share this thesis [and] categorically affirms that human rights represent universal and absolute values."³⁰² Mexico also expanded relations with the E.U. in the early 2000s, however the U.S.-Mexico relationship was still the top priority.³⁰³

China-Mexico relations were minimal in the early 2000s and the most significant event was the Dalai Lama visiting Mexico in 2004. President Fox did not meet with the

²⁹⁴ Ana Covarrubias, "Mexico's Foreign Policy under PAN: Promoting Democracy, Human Rights, and Interests," in *Latin American Foreign Policies*, eds. Gian Gardini and Peter Lambert (New York: Palgrave Macmillan, 2011), 229.

²⁹⁵ Bondi, *Beyond the Border and Across the Atlantic*, 3.

²⁹⁶ Bondi.

²⁹⁷ Covarrubias, "Mexico's Foreign Policy under PAN," 215.

²⁹⁸ Covarrubias.

²⁹⁹ Bondi, *Beyond the Border and Across the Atlantic*, 19.

³⁰⁰ Bondi, 20.

³⁰¹ Bondi, 26.

³⁰² Bondi.

³⁰³ Bondi, 104.

Dalai Lama as President, prompting critics to point out the hypocrisy given his new foreign policy emphasis on human rights.³⁰⁴ However, despite supporting the One-China policy, President Fox had warm words for the exiled leader, saying “we welcome the Dalai Lama to our country, a country of values, a country of families, and a country that is working hard to build a better future.”³⁰⁵ Castaneda criticized President Fox’s decision, saying that not meeting with the Dalai Lama was not in synch with Mexico’s new foreign policy.³⁰⁶

President Fox criticized China on several occasions. In 2003, President Fox “declared that China’s international competitiveness had been built on an authoritarian labor system, low wages, and scant social security.”³⁰⁷ This was not the only time President Fox criticized China, “stating that past Institutional Revolutionary Party (PRI) governments had deceived Mexicans ‘as if we were vile Chinese when they were selling their grandiose ideas, populism and demagoguery.’”³⁰⁸ President Fox clearly did not mince words regarding his views. The China-Mexico relationship was not a top priority as relations with the U.S. were far more important.

President Calderon did not emphasize foreign policy in the way that President Fox did, instead choosing to focus on domestic issues.³⁰⁹ However, President Calderon initially wanted improved relations with China but the 2009 swine flu incident hindered the prospect.³¹⁰ Before being elected, President Calderon noted this desire, saying that “I believe we have several important points of coincidence that will allow us to build political alliances with nations like China and India.”³¹¹ However, the 2009 swine flu outbreak

³⁰⁴ Diego Cevallos, “Mexico: Dalai Lama’s Visit Proves Uncomfortable for President Fox,” Inter Press Service, October 5, 2004, <http://www.ipsnews.net/2004/10/mexico-dalai-lamas-visit-proves-uncomfortable-for-president-fox/>.

³⁰⁵ Cevallos.

³⁰⁶ Cevallos.

³⁰⁷ Leon-Manriquez, “China’s Relations with Mexico and Chile,” 168.

³⁰⁸ Leon-Manriquez, 169.

³⁰⁹ Covarrubias, “Mexico’s Foreign Policy under PAN,” 215.

³¹⁰ Leon-Manriquez, “China’s Relations with Mexico and Chile,” 169.

³¹¹ “Felipe Calderon’s Foreign Policy,” *Washington Post*, accessed September 18, 2018, http://www.washingtonpost.com/wp-srv/world/documents/Foreign_Policy.pdf?noredirect=on.

changed the tone. President Calderon “stated in a televised intervention that, *unlike other countries*, Mexico was dealing with the flu in an open way.”³¹² China took aggressive measures against Mexican citizens in China during the response to the swine flu which increased tensions.³¹³ In addition, in 2011, President Calderon became the first sitting Mexican President in the new century to meet directly with the Dalai Lama, a meeting that lasted for forty-five minutes and prompted a negative response from the Chinese Foreign Ministry.³¹⁴

On the domestic front, the Calderon Administration instituted a controversial war on drugs that had limited success and increased violence.³¹⁵ President Calderon continued the broad foreign policy themes enacted by President Fox and supported increased Mexican presence on the world stage.³¹⁶ As with President Fox, President Calderon espoused Mexican principles of democracy and human rights.³¹⁷ However, his foreign policy was “mostly reactive to external and domestic events,” and there were no major changes to Chinese engagement and Mexican foreign policy.

President Nieto’s election marked a return to the PRI and improved relations between Mexico and China. President Nieto met with the Chinese president at a more frequent pace, especially in the beginning of his presidency. In 2013, the “strategic partnership” was upgraded to a “comprehensive strategic partnership.”³¹⁸ In an op-ed in 2017, President Nieto noted increased relations with China, ranging from bilateral investments, increased business and social ties, as well as Mexico’s openness to

³¹² Leon-Manriquez, “China’s Relations with Mexico and Chile,” 169.

³¹³ “Chinese-Mexican Standoff Over Swine Flu,” ABC News, May 3, 2009, <http://www.abc.net.au/news/2009-05-04/chinese-mexican-standoff-over-swine-flu/1670948>.

³¹⁴ “China Slams Calderon’s Meeting with Dalai Lama,” *San Diego Union Tribune*, September 10, 2011, <http://www.sandiegouniontribune.com/sdut-china-slams-calderons-meeting-with-dalai-lama-2011sep10-story.html#>.

³¹⁵ Alina Menocal, “A Requiem for Calderon,” *Foreign Policy*, June 18, 2012, <https://foreignpolicy.com/2012/06/18/a-requiem-for-calderon/>.

³¹⁶ *Washington Post*, “Felipe Calderon’s Foreign Policy.”

³¹⁷ *Washington Post*.

³¹⁸ *South China Morning Post*, “Stronger Relations Underline Mexico’s Look-East policy.”

investment.³¹⁹ In 2013, the Dalai Lama visited Mexico, but President Nieto did not meet him.³²⁰ Eric Farnsworth, the VP of the Council of the Americas and Americas Society noted, that “Pena Nieto is looking for a fresh beginning...meeting with the Dalai Lama would potentially freeze these efforts...much as the decision of then-President Felipe Calderon was a major factor in keeping Mexico’s relations with China on ice.”³²¹

Especially in the last years of the Nieto administration, the closer China-Mexico foreign relations need to be understood in the context of U.S.-Mexico relations. Even with the uptick in China-Mexico relations, “Mexican officials have...downplayed growing China relations, suggesting that ties to China are mainly useful...(for) dealing with the United States.”³²² Despite the warming relationship, other than increased presidential visits and not meeting the Dalai Lama, there were no major ideological shifts in Mexican foreign policy due to Chinese engagement due to structural factors holding the relationship back, such as economic incompatibility and the U.S. relationship.³²³

D. AGENCY VS. HEGEMONY

The last section argues that changes to the Mexican economic outlook and foreign policy were influenced mostly by Mexican agency and only by Chinese hegemony to a minimal extent. Summarizing the earlier findings, the level of Chinese engagement in Mexico is low. Mexico’s economic outlook and foreign policy trajectory were influenced to a low degree as a result of Chinese engagement. The underlying condition necessary for Chinese engagement to yield influence in LATAM is the degree of economic compatibility because foreign policy is an extension of domestic policy, and domestic policy is constrained by economic realities.

³¹⁹ *South China Morning Post*.

³²⁰ Tim Johnson, “Mexico’s Leader and the Dalai Lama,” McClatchy, October 11, 2013, <https://www.mcclatchydc.com/news/nation-world/world/article24757090.html>.

³²¹ Johnson.

³²² Margaret Myers, “China’s Period of Strategic Opportunity in Mexico,” *National Interest*, December 7, 2017, <https://nationalinterest.org/feature/chinas-period-strategic-opportunity-mexico-23558?page=0%2C1>.

³²³ Myers.

1. Mexican Agency: Hypothesis #2

Mexican agency is the best hypothesis to explain Mexico's economic performance since 2000. Mexico losing out economically due to China is because of decreasing relative economic competitiveness and little to do with Chinese engagement. The shift in relative competitiveness is most related to domestic economic decision-making. Both countries began implementing economic reforms in the second half of the twentieth century, however, in the long-run the Chinese economic reforms outperformed Mexico's.³²⁴ The main structural factor in which Mexico underperformed was due to its "lackluster performance of investment."³²⁵ Additionally, Mexico's timing of reforms hurt the long-term performance and when the economy eventually picked up, the reforms predominately benefited larger companies.³²⁶ Lastly, the poor implementation of economic reforms via investment "brought about an acute deterioration in Mexico's infrastructure."³²⁷ In short, agency best explains Mexico's economic performance because investments were not as well-implemented as China's during the late 1970s to the 1990s, which culminated in second and third order affects which impacted the Mexican economic trajectory in the twenty-first century.

Other aspects of Mexican agency contributed to the economic performance since 2000, such as poorly-managed central bank policies. The Mexican Peso appreciated against the dollar starting in the 1980s, while the Chinese currency became devalued against the dollar.³²⁸ In doing so, Mexican exports became relatively more expensive while Chinese exports became more competitive due to a cheaper currency. In addition, due to poor investment, Mexican productivity did not keep pace with the Chinese change in productivity, which had repercussions for moving up the value chain and exporting expensive finished goods.³²⁹ Lastly, the Mexican government was not involved enough in

³²⁴ Gallagher and Porzecanski, *The Dragon in the Room*, 116.

³²⁵ Gallagher and Porzecanski, 93.

³²⁶ Gallagher and Porzecanski, 94.

³²⁷ Gallagher and Porzecanski.

³²⁸ Gallagher and Porzecanski, 95.

³²⁹ Gallagher and Porzecanski, 96.

targeting competitive areas of the economy which had the most potential in the 1980s and shifted to “let markets determine the profile of Mexican manufacturing sectors.”³³⁰ Mexico’s domestic economic policies produced long-term effects which impacted the economic trajectory in the twenty-first century.

Mexico’s foreign policy decision-making was mostly the result of domestic agency, not Chinese engagement. For example, the shift in Mexican foreign policy at the beginning of the century was due to several domestic factors, including the fact that Mexico became a true democracy.³³¹ The foreign policy decision-making by President Fox was an “attempt to break from its isolationist past.”³³² Additionally, the domestic politics and the shift in power from the PRI to the PAN and the personalities of President Fox and Castaneda helped instigate the shift in foreign policy.³³³ The onset of Mexico’s new foreign policy had nothing to do with Chinese engagement, instead the foreign policy trajectory of the twenty-first century was launched from within. However, some inside Mexico viewed President Fox’s push to become a player in the international arena as a gambit to distract from a sluggish economy and his new international policies “underestimated ingrained nationalistic and isolationist tendencies in Mexican society,” showing that states rarely speak with one unified voice and there was internal debate about the new foreign policy.³³⁴

Foreign policy and economic issues are often related and difficult to analyze separately. Mexico is no exception, especially due to increased competition with China. President Fox criticized China in 2003 for their economic practices because of internal domestic pressure and domestic policy considerations.³³⁵ President Calderon was unable to turn China-Mexico foreign relations around, despite having the initial intention.³³⁶ The

³³⁰ Gallagher and Porzecanski.

³³¹ Bondi, *Beyond the Border and Across the Atlantic*, 1.

³³² Bondi, xi.

³³³ Covarrubias, “Mexico’s Foreign Policy under PAN,” 215.

³³⁴ Bondi, *Beyond the Border and Across the Atlantic*, 4.

³³⁵ Leon-Manriquez, “China’s Relations with Mexico and Chile,” 168.

³³⁶ Leon-Manriquez, 169.

2009 swine flu response by Calderon presumably had domestic audience considerations, especially with the comment “that, *unlike other countries*, Mexico was dealing with the flue in an open way.”³³⁷ The main tenets of Mexican foreign policy remain unchanged from President Fox to President Calderon and “the PAN’s foreign policy...(was) intended not only for external actors but, equally, for domestic audiences.”³³⁸

2. Chinese Hegemony: Hypothesis #1

Chinese hegemony indirectly impacted Mexican foreign policy under the Nieto Administration because it provided an alternative to its northern neighbor. Foreign Minister Castaneda said that “Mexico’s growing interest in China...(was) an ‘expression of machismo’ directed northward.”³³⁹ With regard to President Nieto, closer ties to China could be due to U.S. domestic politics in 2016, even though the initial improvement in relations began in 2013.³⁴⁰ Mexico’s foreign policy under President Nieto needs to be understood within the relationship between the U.S. and Mexico.³⁴¹ Castaneda articulated Mexico’s foreign policy situation, noting that “all nations tend to balance their asymmetric bilateral relations by strengthening their ties with other countries...[but this is] practically impossible for Mexico...the only way our country could truly balance...is by developing a very intense activity on the multilateral stage.”³⁴² While the U.S.-Mexico relationship may provide an incentive for increased China-Mexico relations, economic structural factors push China and Mexico apart.

There is no evidence to support the hypothesis that Chinese hegemony influenced the Mexican economic outlook via engagement and influence. The Chinese made gains at the expense of the Mexican economy due to reforms that started before the increase in

³³⁷ Leon-Manriquez.

³³⁸ Covarrubias, “Mexico’s Foreign Policy under PAN,” 214.

³³⁹ Myers, “China’s Period of Strategic Period of Strategic Opportunity in Mexico.”

³⁴⁰ Sabrina Rodriguez, “Mexico Gets Closer to China as NAFTA Talks Fray U.S. Relationship,” November 20, 2017, <https://www.politico.com/story/2017/11/20/mexico-gets-closer-to-china-as-nafta-talks-fray-us-relationship-176074>.

³⁴¹ Bondi, *Beyond the Border and Across the Atlantic*, 2.

³⁴² Bondi.

Chinese engagement in LATAM.³⁴³ China and Mexico increasingly became direct competitors and the impacts of the reforms became more pronounced as China made gains at the expense of Mexico.³⁴⁴ However, it is important to point out that while China has made impressive economic gains, the GDP per capita in Mexico is still higher than the GDP per capita in China.³⁴⁵

³⁴³ Gallagher and Porzecanski, *The Dragon in the Room*, 93.

³⁴⁴ Gallagher and Porzecanski.

³⁴⁵ Joshua Keating, "Memo to Nieto: Mexicans are Already Richer Than the Chinese," July 3, 2012, <https://foreignpolicy.com/2012/07/03/memo-to-nieto-mexicans-are-already-richer-than-the-chinese/>.

IV. CONCLUSION

The final chapter synthesizes the conclusions from the case studies and addresses the implications from the argument that the underlying condition necessary for Chinese engagement to yield influence is the degree of economic compatibility. Additionally, the argument that foreign policy is an extension of domestic policy, which is constrained by economic realities is expanded. Table 5 and Table 6 summarize the findings from the case studies and show that Chinese engagement is variable by country. Chile received more engagement than Mexico, which suggests that economic compatibility influences the level of Chinese engagement. The differences in engagement and economic compatibility led to Chinese influence impacting the Chilean economy to a medium degree, while only impacting the Mexican economy to a minimal degree. China influenced foreign policy in both countries to a minimal degree, which suggests that engagement yields influence in a country's economy more than its foreign policy. These findings show that foreign policy is difficult to influence regardless of the level of engagement or economic compatibility and that a country's economic outlook is more susceptible to influence from foreign engagement than its foreign policy.

Table 5. Summary of Chinese engagement

	Level of PRC Engagement
Chile	medium-high
Mexico	low

Table 6. Changes to economy and foreign policy due to engagement

Chile 2000-2018		Mexico 2000-2018	
Δ Economically	Δ Foreign policy	Δ Economically	Δ Foreign Policy
medium	low	low	low

The level of Chinese engagement was the independent variable which was established first since this varied by country. The overall level of engagement in Chile was

calibrated as “medium-high” and the level of engagement in Mexico was “low.” These levels of engagement were averages over the past two decades and were a judgment call after evaluating engagement across the economic, political, military, business, and social sectors and was scaled relative to LATAM. While the level of engagement varied by year, an attempt was made to average it in order to provide a reference point and eliminate confusion. One of the assumptions made was that the amount of scholarly work and newspaper articles was commensurate with the engagement level.

The Chilean economic outlook was impacted to a medium extent, while the Mexican economic outlook was impacted to a low extent due to Chinese engagement. One of the difficulties for the research project involved separating the impact of increased Chinese engagement versus impacts due to economic competitiveness, a problem especially relevant for the Mexican economy.

The research project found that Chinese political and economic engagement in Chile manifested in a palpable FTA, which subsequently influenced the Chilean economic outlook to a moderate degree. The moderate degree of influence was a judgement call after examining the economic performance and balance of trade data before and after the FTA. The China-Chile FTA was arguably the single biggest factor that helped drive Chilean economic growth in the twenty-first century. Chilean foreign policy changed little, despite a higher level of Chinese engagement. The Chilean foreign policy objectives stayed consistent largely due to its resource-export dependency, domestic institutions, and the strong link between its economy and foreign policy. Chinese hegemony was manifested via the FTA and Chilean agency was manifested through the domestic institutions.

There have been rumblings recently of interest in talks about a China-Mexico FTA.³⁴⁶ However, this is largely from the Chinese side and needs to be understood in the context of China-Mexico-U.S. relations. Limited Chinese economic engagement in Mexico resulted in the Mexican economy being influenced to a low degree by engagement. Additionally, Mexican foreign policy stayed relatively consistent since 2000. However,

³⁴⁶ “China Open to Free-trade Agreement with Mexico: Xinhua,” Reuters, June 28, 2017, <https://www.reuters.com/article/us-china-mexico-trade/china-open-to-free-trade-agreement-with-mexico-xinhua-idUSKBN19K01Z>.

when China-Mexico relations warmed under President Nieto, this was explained by the China-Mexican-U.S. relationship and Mexican domestic politics. Mexico's position between China and the U.S. largely constricts its foreign policies. As much as aligning towards China for foreign policy reasons could be beneficial for Mexican interests, the economic competitiveness is a formidable countermeasure offsetting this alignment. Mexican agency was manifested through its domestic politics and economic reforms.

The central argument linking the case studies is that the underlying condition necessary for Chinese engagement to yield influence is the extent of economic compatibility. This is because foreign policy is an extension of domestic policy, and domestic policy is constrained by economic realities. For Chile, China was a rational actor targeting an already compatible economy through increased political engagement which manifested in a FTA. Chilean foreign policy was already pre-determined by its economy and institutions, and a growing China in search of raw materials resulted in mutual economic benefits. For Mexico, there was little economic compatibility, only underlying competitiveness, which manifested in a lack of economic and political engagement and yielded low levels of influence. The level of engagement China exhibited in Chile and Mexico was commensurate with its economic compatibility and the potential for mutual benefits. This analysis suggests that the foreign policy outlook is difficult to influence regardless of the level of engagement and that the economic outlook is more susceptible to changes from foreign engagement and influence.

A. IMPLICATIONS

Economic realities refer to the structure of a country's economy. This refers to the domestic comparative advantage and the "composition and various components of the regional economy such as: production, employment, consumption, trade and gross regional product."³⁴⁷ This research project overviewed the structural economic realities based on natural resource exploitation in Chile and manufacturing in Mexico. Policymaker's

³⁴⁷ Sudhir Thakur, "Fundamental Economic Structure and Structure Change in Regional Economies: A Methodological Approach," *Region et Developpement* (2011): 9, <http://region-developpement.univ-tln.fr/en/pdf/R33/Thakur.pdf>, 9.

domestic and foreign policies are designed to benefit these economic realities because their citizens are reliant on these economic realities for their livelihood. For example, it was in China's and Chile's interest to pursue a FTA because closer economic integration had mutual domestic benefits. On the other hand, Mexico's underlying economic tensions with China played out in the word choices of President Fox and President Calderon's responses to the Dalai Lama and swine flu incident.

Chinese economic compatibility with LATAM is dependent on having goods that China can import. China has become a manufacturing giant this century and as a result has a significant balance of trade surplus. Due to its economic structure, China needs to import raw materials and does not need to import manufactured goods, as it already has a comparative advantage in this industry. Therefore, commodity exporters like Chile have more to offer China and contrast with a country like Mexico that has little to offer China.

With respect to LATAM countries benefiting as a result of Chinese trade, there are several tiers of countries that develop as a result of China's increasing role in LATAM. According to the academic literature, Chile and Peru have robust commodity exports and both have FTAs with China.³⁴⁸ Brazil and Argentina are large countries that have experienced manufacturing competition, but also have commodity exports that go to China and make up a middle tier.³⁴⁹ Lastly, Mexico and the Caribbean countries do not have robust commodity exports to China and have been the most negatively impacted by manufacturing competition and represent a bottom tier of countries.³⁵⁰ If mutual economic compatibility is the main driver of Chinese engagement in LATAM, then this should be reflected through varying levels of engagement which should be commensurate with the level of economic compatibility. However, other factors such as the size of a country or political objectives could also influence the engagement level.

Table 7 has LATAM countries organized from high to low by the percentage of raw materials as a total of their exports. The general trend is that countries who export a

³⁴⁸ Gonzalez, "Latin America in the Economic Equation—Winners and Losers," 163.

³⁴⁹ Gonzalez.

³⁵⁰ Gonzalez.

higher number of raw materials as a percentage of total exports tend to trade more with China. Additionally, most of the countries that do not send much of their exports to China are either political allies with Taiwan or have a relatively low percentage of raw materials as exports. This table reinforces the notion that countries who export raw materials have the most to gain from an economic relationship with China. Additionally, the different tiers of countries become evident after examining the table, which should also reflect the degree of Chinese engagement if economic compatibility is the sole factor that determines the extent of Chinese engagement. Therefore, the countries specifically most of risk for Chinese engagement and subsequent influence are organized from high to low.

Table 7. Countries sorted by economic compatibility with China³⁵¹

Country	% of Raw Materials as exports	% of Countries Exports to China	% of Countries Imports from China	Taiwan diplomatic ally	Pacific Access
Venezuela	85.47%	.29% *	17.01%	N	N
Ecuador	70.15%	3.91%	19.09%	N	Y
Uruguay	56.24%	12.80%	18.83%	N	N
Colombia	53.69%	3.63%	19.25%	N	Y
Peru	47.37%	23.54%	22.78%	N	Y
Chile	45.44%	28.50%	24.06%	N	Y
Paraguay	44.48%	0.25%	27.12%	Y	N
Honduras	42.24%	2.03%	11.28%	Y	Y
Brazil	39.48%	18.97%	16.99%	N	N
Guyana	35.50%	1.13%	7.34%	N	N
Guatemala	31.53%	1.94%	10.59%	Y	Y
Nicaragua	31.39%	0.46%	14.41%	Y	Y
Argentina	30.82%	7.66%	18.82%	N	N
Costa Rica	30.27%	0.46%	13.59%	N	Y
Bolivia	27.88%	5.34%	17.89%	N	N
Belize	14.60%	0.53%	11.72%	Y	N
Mexico	10.21%	1.45%	17.96%	N	Y
Cuba	4.69%	0.77%	13.39%	N	N
Suriname	4.51%	1.01%	6.50%	N	N
El Salvador	4.37%	0.11%	8.69%	N	Y
Panama	3.85%	0.33%	31.33%	N	Y
*Unspecified 65.72%					

³⁵¹ Adapted from “Trade Statistics by Country/Region,” World Integrated Trade Solution, accessed November 29, 2018, <https://wits.worldbank.org/countrystats.aspx?lang=en>.

The implications from the argument are that economic compatibility has a large impact on the degree of foreign engagement exerted by a hegemon. Additionally, when foreign engagement is exerted, it is easier to influence the economic outlook compared to foreign policy. The previously discussed U.S. pressure on Chile in the lead-up to the invasion of Iraq is a prime example. With regard to China, their literature states that “China-Latin-America relations are not only limited to strategic resource demands, they also include cooperation in the political realm.”³⁵² The emphasis regarding cooperation is primarily economic, not political, however foreign policy is rarely static and the international system is constantly changing.³⁵³

A common assumption about hegemons and weaker states is that increased engagement directly increases power and influence. This thesis challenged this assumption and found little evidence of major foreign policy shifts due to increased Chinese engagement and only moderate impacts on an economic outlook in a country with a compatible economy. However, the *National Defense Strategy* asserts that China “is leveraging military modernization, influence operations, and predatory economics to coerce neighboring countries to reorder the Indo-Pacific region to their advantage... that seeks Indo-Pacific regional hegemony in the near-term and displacement of the United States to achieve global preeminence in the future.”³⁵⁴ This research project examined the impact of Chinese engagement in Chile and Mexico and did not find evidence of coercion. An initial analysis could conclude that LATAM is not in the purview of China’s “Indo-Pacific regional hegemony.”³⁵⁵ After all, Chile and Mexico are not considered countries traditionally part of the Indo-Pacific region, as illustrated in Figure 5. However, the invitation of LATAM into the One Belt One Road initiative in January of 2018 provides the impetus for at least for considering the expansion of the traditional Indo-Pacific region to include the Pacific Coast of LATAM.

³⁵² Hongbo, “China’s Benefits in Latin America,” 55.

³⁵³ Hongbo.

³⁵⁴ Mattis, *National Defense Strategy*, 2.

³⁵⁵ Mattis, *National Defense Strategy*, 2.

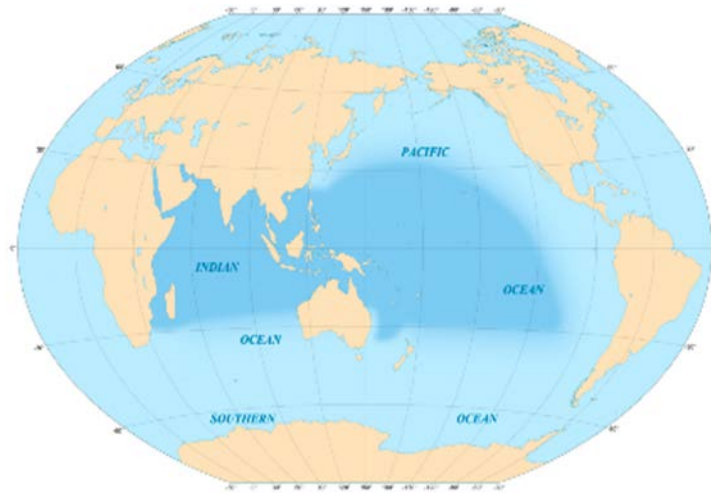


Figure 5. Traditional Indo-Pacific region³⁵⁶

According to a Chinese perspective on China-LATAM relations, there are two main upsides for China in LATAM, economic and political.³⁵⁷ Economic upside manifests itself through continued access to commodities and political upside manifests itself by weakening Taiwan through Chinese engagement.³⁵⁸ The same author concludes that “China holds dear the idea of peace and development, and China-Latin American relations do not aim to harm third parties. China-Latin American relation development is the product of economic globalization.”³⁵⁹ However, later in the same paragraph, the author ends with noting that “economic globalization and international political multipolarization is irreversible... (and) China-Latin America relations are not only limited to strategic resource demands, they also include cooperation in the political realm.”³⁶⁰ These quotes from a Chinese published book drive home the notion that economics and foreign relations go hand in hand and are different to separate. Economic relationships naturally breed

³⁵⁶ Source: Gaba, Eric, “Area Covered by the Indo-Pacific Biogeographic Region,” Wikipedia, May 1, 2008, https://en.wikipedia.org/wiki/Indo-Pacific#/media/File:Indo-Pacific_biogeographic_region_map-en.png.

³⁵⁷ Hongbo, “China’s Benefits in Latin America,” 47.

³⁵⁸ Hongbo.

³⁵⁹ Hongbo, 55.

³⁶⁰ Hongbo.

political relationships that may not be directed at an outside state but still contribute to a changing multipolar world.

There may be areas of LATAM where political upside outweighs economic compatibility as the impetus for Chinese engagement. In 2017, Panama “shifted its diplomatic alignment from Taiwan to China.”³⁶¹ In June of 2018, the Honduran ambassador to Taiwan noted, “We have a lot of pressure every day...there are people talking to the president...every day, saying let’s go to China.”³⁶² In August of 2018, El Salvador “severed diplomatic relations with Taiwan...and established ties with China.”³⁶³ The President of El Salvador noted that “China is the second-biggest economy in the world with permanent growth and its achievements in different fields position it among the most successful countries.”³⁶⁴ Additionally, he noted the “extraordinary opportunities,” which clearly indicates an economic element to the reasoning behind the switch to China.³⁶⁵ There is clearly an interplay between economic and political goals behind Chinese engagement in LATAM. However, the findings from the research project argue that the economic factors are the most significant for Chinese engagement.

China could pull LATAM into an expanding sphere of influence using a variety of types of power, especially after the expansion of OBOR and ensuing closer economic ties. Soft power, in particular, receives substantial scholarly attention. Joseph Nye describes soft power as “the ability to get what you want through attraction rather than coercion or payments.”³⁶⁶ He elaborated further, noting that soft power is “getting others to want the

³⁶¹ Binay Prasad, “A Latin American Battle: China vs. Taiwan,” *The Diplomat*, August 19, 2017, <https://thediplomat.com/2017/08/a-latin-american-battle-china-vs-taiwan/>.

³⁶² “Taiwan’s Critical Battle to Keep Its Diplomatic Allies from Switching Sides,” *South China Morning Post*, July 6, 2018, <https://www.scmp.com/news/china/diplomacy-defence/article/2151012/taiwans-critical-battle-keep-its-diplomatic-allies>.

³⁶³ Chris Horton, “El Salvador Recognized China in Blow to Taiwan,” *New York Times*, August 21, 2018, <https://www.nytimes.com/2018/08/21/world/asia/taiwan-el-salvador-diplomatic-ties.html>.

³⁶⁴ Goh Noi, “Taiwan Loses Third Diplomatic Ally this Year After El Salvador Breaks Ties,” *Strait Times*, August 21, 2018, <https://www.straitstimes.com/asia/east-asia/taiwan-set-to-lose-its-third-diplomatic-ally-this-year-source>.

³⁶⁵ Horton, “El Salvador Recognized China in Blow to Taiwan.”

³⁶⁶ Nye, *Soft Power*, x.

outcomes that you want,” and it “rests on the ability to shape the preferences of others.”³⁶⁷ Increasing economic linkages are an ideal way to increase soft power and create aligning interests.

Nye asserts that there are three sources of soft power, namely cultural, political values, and foreign policies.³⁶⁸ President Hu called out the need for increased cultural soft power in an essay in 2012, noting that “we must clearly see that international hostile forces are intensifying the strategic plot of Westernizing and dividing China, and ideological and cultural fields are the focal areas of their long-term infiltration.”³⁶⁹ He added that China should “sound the alarms and remain vigilant, and take forceful measures to be on guard and respond.”³⁷⁰ With respect to political values, Chinese statements make it clear that it respects different systems of government. Foreign policy could be manifested through economic engagement such as the expansion of OBOR, and could be viewed as a method to increase soft power. Lastly, the performance of the Chinese economic system could result in changes to their soft power in LATAM, including increased “attraction” and “agenda setting,” especially if economic ties increase.³⁷¹

In addition to soft power, Chinese economic power could increase as a result of OBOR extending to LATAM. Recent examples of predatory economics include South Korea and the Philippines over THAAD and maritime boundaries, respectively.³⁷² Economic power and the behaviors of “inducement” and “coercion” could be manifested

³⁶⁷ Nye, 5.

³⁶⁸ Nye, 11.

³⁶⁹ Edward Wong, “China’s President Lashes Out at Western Culture,” *New York Times*, January 3, 2012, <https://www.nytimes.com/2012/01/04/world/asia/chinas-president-pushes-back-against-western-culture.html>.

³⁷⁰ Wong.

³⁷¹ Nye, *Soft Power*, 31.

³⁷² Matthew Goodman, “Predatory Economics and the China Challenge,” *Center for Strategic and International Studies* VII, no. 11 (November 2017): 1–2. <https://www.csis.org/analysis/predatory-economics-and-china-challenge>.

more easily by a hegemon over a smaller country, something that the expansion of OBOR to LATAM could precipitate.³⁷³

The research question did not assume that a hegemon automatically has influence because of engagement. In fact, there are numerous methods that a state can use to counter a hegemon's pressure. For example, the balking strategy used by Chile and Mexico in response to U.S. pressure over Iraq.³⁷⁴ There are a variety of methods of resistance employed to varying degrees of success by states who want to counter the hegemon.³⁷⁵ The authors of *Beyond Great Powers* perfectly summarize the "limitations of hegemony."³⁷⁶ They note that "it may be the case that external factors motivate followers to pursue a particular strategy at some times, while domestic factors matter more in other times. Of course, both internal and external factors may matter in yet other cases. The relationship between hegemons and followers is dynamic and may ebb and flow over time in a continuing process of negotiation and renegotiation."³⁷⁷ The international order is dynamic, especially in an era of "inter-state strategic competition."³⁷⁸

The notion of a U.S.-China rivalry is not new. Greg Brazinsky argued that during the Cold War the "Sino-American rivalry in the Third World was, in essence, a competition over status."³⁷⁹ He also added that status is difficult to quantify and argued that the Cold War was not just an ideological battle between capitalism and communism, but also over "the prospect of a North-South conflict that would divide the world along racial and religious lines."³⁸⁰ China "had a special role to play in liberating and championing the oppressed people," which was driven in part by "the historical memory of China's past

³⁷³ Nye, *Soft Power*, 31.

³⁷⁴ Lapp, "Resistance Is Util (Useful)," 152.

³⁷⁵ Lobell, Press-Barnathan, and Williams, "The Leader Can't Lead When Followers Won't Follow," 14.

³⁷⁶ Lobell, Press-Barnathan, and Williams, 24.

³⁷⁷ Lobell, Press-Barnathan, and Williams.

³⁷⁸ Mattis, *National Defense Strategy*, 1.

³⁷⁹ Greg Brazinsky, *Winning the Third World: Sino-American Rivalry during the Cold-War* (Chapel-Hill: The University of North Carolina Press, 2017), 4.

³⁸⁰ Brazinsky, 2.

humiliation at the hands of Great Powers.”³⁸¹ During the Cold War, China tried to improve its status through a variety of means, namely through “diplomacy, economic aid, cultural exchange, and propaganda.”³⁸² Since some of these mechanisms are features of China-LATAM relations in the twenty-first century, it could be argued that Brazinsky’s work regarding the Cold War U.S.-China rivalry over status extended into the twenty-first century. In light of Brazinsky’s argument and the 2018 *NDS*, the contemporary US-China relationship could be viewed as a great power rivalry that competes for influence in LATAM. U.S. policy recommendations should be made in light of economic influence being more realistic than political and foreign policy influence. As a result, U.S. policy makers should approach LATAM relations from a strategic, long-term economic perspective, with the goal of building hemispheric unity.

One of the unresolvable problems in the research question is of endogeneity. One of the assumptions in the research project was that the independent variable directly influenced the dependent variable. The research question assumes that Chinese engagement is actually influencing the economic and foreign policy of Chile and Mexico. However, the problem is that it could be the other way around, the dependent variable could be impacting the independent variable. The LATAM economic outlook or foreign policy could be influencing the level of Chinese engagement. This could question the premise of the research question. This is an ultimately unresolvable issue that may never be answered in a completely satisfactory manner. However, it is worth noting that during President Jiang’s trip to Chile in 2001, he outlined the shift toward multipolarization and traveled abroad, which makes it reasonable to conclude that China was setting the initial agenda and that the independent and dependent variables are correctly positioned.³⁸³

³⁸¹ Brazinsky, 5–6.

³⁸² Brazinsky, 7.

³⁸³ Embassy of the People’s Republic of China in Papua New Guinea, “President Jiang Zemin Met with Chilean President Lagos and Other Officials.”

B. AREAS FOR FUTURE RESEARCH

There are multiple areas for further research in examining the extent of Chinese engagement in LATAM. This thesis was limited to two country case studies. However, different conclusions could possibly be drawn and greater insight into the agency vs. hegemony debate could be achieved with additional case studies. Chinese engagement in Peru, Argentina, Brazil, Ecuador, Venezuela, Cuba, and the Caribbean countries would undoubtedly provide further insights into the research question. Additionally, this research topic would be in line with the themes in the 2018 *National Defense Strategy*. Additionally, there could be further research into establishing a quantifiable metric to establish the degree of Chinese engagement within a country. The level of economic, political, military, business, and social engagement in Chile and Mexico was largely a judgment call and could be quantitatively established using statistical analysis.

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